1976

Illustrations of the disclosure of "pro forma" calculations : a survey of the application of certain sections of APB opinion nos. 15, 16, and 20, and SAS no. 1; Financial report survey, 11

Hortense Goodman

Leonard Lorensen

FINANCIAL REPORT SURVEY 11

Illustrations of the Disclosure of "Pro Forma" Calculations

A survey of the application of certain sections of APB Opinion Nos. 15, 16, and 20, and SAS No. 1.

By Hortense Goodman, CPA
and
Leonard Lorensen, CPA

AICPA
American Institute of Certified Public Accountants

AICPA
American Institute of Certified Public Accountants

FINANCIAL REPORT SURVEYS

1 **Illustrations of Accounting Policy Disclosure (1972)**
A survey of applications of APB Opinion No. 22

2 **Illustrations of Reporting Accounting Changes (1974)**
A survey of reporting under APB Opinion No. 20

3 **Illustrations of Reporting the Results of Operations (1974)**
A survey of applications of APB Opinion No. 30

4 **Illustrations of Interperiod Tax Allocation (1974)**
A survey of applications of APB Opinion Nos. 11, 23, 24, 25 and SEC Release No. 149

5 **Illustrations of the Statement of Changes in Financial Position (1974)**
A survey of Reporting Under APB Opinion No. 19

6 **Illustrations of the Summary of Operations and Related Management Discussion and Analysis (1975)**
A survey of the application of Rules 14a-3 and 14c-3 of the Securities Exchange Act of 1934 in annual reports to shareholders

7 **Illustrations of Departures from the Auditor's Standard Report (1975)**
A survey of the application of Statement on Auditing Standards No. 2

8 **Illustrations of the Disclosure of Related Party Transactions (1975)**

9 **Illustrations of the Disclosure of Subsequent Events (1976)**
A survey of the application of Section 560 of Statement on Auditing Standards No. 1

10 **Illustrations of Accounting for Contingencies (1976)**
A survey of the application of FASB Statements Nos. 5 & 11

Illustrations of the Disclosure of "Pro Forma" Calculations

A survey of the application of certain sections of APB Opinion Nos. 15, 16, and 20, and SAS No. 1

Illustrations of the Disclosure of "Pro Forma" Calculations

A survey of the application of certain sections of APB Opinion Nos. 15, 16, and 20, and SAS No. 1

by HORTENSE GOODMAN, CPA
AND
LEONARD LORENSEN, CPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

NOTICE TO READERS

This is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute.

PREFACE

This publication is the eleventh in a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). The first ten in the series are listed on the inside cover of this publication.

The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to periodically publish similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over six thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

William C. Bruschi
Vice President-Review & Regulation

TABLE OF CONTENTS

I

SCOPE AND PURPOSE OF THE SURVEY

NATURE OF PRO FORMA CALCULATIONS

Under generally accepted accounting principles, business enterprises are required in several circumstances to disclose financial statement items calculated both on a historical basis and on a "pro forma" basis. Although the term "pro forma" is not defined in authoritative accounting and auditing literature, in each circumstance in which it is used in literature issued by the AICPA and FASB it refers to a calculation made under specified assumptions that are contrary to fact. Under APB Opinion No. 15, "Earnings per Share," pro forma calculations are made under the assumption that changes in stockholders' equity that did not actually occur did occur under existing issuance plans. Under APB Opinion No. 16, "Business Combinations," pro forma calculations are made under the assumption that a business combination that actually occurred during a period had occurred at the beginning of the immediately preceding period. Under Accounting Principles Board (APB) Opinion No. 20, "Accounting Changes," financial statement items for a period are calculated pro forma under the assumption that an accounting principle that was actually applied for the first time in a later period had been applied earlier. Under Section 560 of Statement on Auditing Standards (SAS) No. 1, "Subsequent Events," and paragraph 11 of Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies," pro forma calculations are made under the assumption that an event that actually occurred after the date of the balance sheet had occurred on that date.

The sections of APB Opinion Nos. 15, 16, and 20, SAS No. 1, and Statement No. 5 that require the disclosure of pro forma calculations are reproduced in the Appendix to this survey.

SOURCE OF ILLUSTRATIONS

The disclosure of pro forma calculations of financial statement items in conformity with the applicable sections of APB Opinion Nos. 15, 16, and 20, SAS No. 1, and Statement No. 5 requires considerable judgment. An accountant who is confronted with problems in applying those pronouncements can benefit from learning how other accountants are applying them in practice. Accordingly, this publication presents excerpts from recently published financial statements that illustrate the apparent application of the pronouncements.

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented were selected from the published annual reports to shareholders of more than 6,000 companies stored in the computer data base.

II

EARNINGS PER SHARE

FULLY-DILUTED EARNINGS PER SHARE

APB Opinion No. 15 requires the disclosure of fully-diluted earnings per share, a pro forma calculation that reflects the dilution of earnings per share that would have occurred if all contingent issuances of common stock that would individually reduce earnings per share had taken place at the beginning of the period (or time of issuance of the convertible security, etc., if later). Dilution may result from the existence of (a) outstanding senior stock or debt which is convertible into common shares, (b) outstanding stock options, warrants, or similar agreements, or (c) agreements for the issuance of common shares for little or no consideration upon the satisfaction of certain conditions (for example, the attainment of specified levels of earnings following a business combination). The basis of the pro forma calculation is required to be fully explained.

Thirty excerpts from financial statements are presented that illustrate the disclosure of fully-diluted earnings per share. The examples are classified by type of contingent issue of common stock.

CLASS A CAPITAL STOCK

READING & BATES OFFSHORE DRILLING COMPANY
Statement of Income

	For the years ended September 30, 1975	1974
• • • •		
Earnings per common share and common equivalent share (Note A):		
Income before cumulative effect of change in accounting principle	$4.26	$2.27
Cumulative effect on prior years of change in accounting principle	(.23)	—
Net income	$4.03	$2.27
Earnings per common share—assuming full dilution (Note A):		
Income before cumulative effect of change in accounting principle	$3.94	$2.13
Cumulative effect on prior years of change in accounting principle	(.21)	—
Net income	$3.73	$2.13

Notes to Financial Statements

A—Summary of Significant Accounting Policies

• • • •

Earnings per Share—Earnings per common share and common equivalent share are based on the weighted average number of shares outstanding during each year. Common stock equivalents include Stock Purchase Warrants and Stock Options issued after June 1, 1969.

Earnings per common share assuming full dilution are based on the shares outstanding above, plus the number of common shares that would have been issued assuming all of the Class A Capital Stock, Preferred Stock, certain Stock Purchase Warrants, certain Stock Options, and 5½% Convertible Subordinated Debentures outstanding at the beginning of each period or date of issue, if later, had been converted into Common Stock at those dates, less the number of common shares assumed to have been purchased with the proceeds from the exercise of Stock Purchase Warrants and Stock Options. Class A and Preferred dividend requirements and interest net of income taxes on the Convertible Debentures have been eliminated.

DEBENTURE CONVERSION

CHELSEA INDUSTRIES, INC.

Consolidated Statement of Income

	Year Ended September 27, 1975	Year Ended September 28, 1974
• • • •		
Per Share Data		
Primary		
Income from continuing operations	$.75	$2.25
Loss from discontinued operations	(.16)	(.43)
Income before extraordinary credit	.59	1.82
Extraordinary credit	—	.86
Net income	$.59	$2.68
Fully Diluted		
Income from continuing operations	$.75	$1.89
Loss from discontinued operations	(.16)	(.34)
Income before extraordinary credit	.59	1.55
Extraordinary credit	—	.67
Net income	$.59	$2.22

Notes to Financial Statements

Significant Accounting Policies

• • • •

Earnings Per Share

Computation of primary earnings per common share and common equivalent share is based on the weighted average shares outstanding during each period increased by the effect of dilutive stock options and the outstanding warrant.

Fully diluted earnings per common share are computed as above with the additional assumption that 10% Debentures and 5¼% Debentures were converted into 705,000 shares and the related interest expense, net of income taxes, was eliminated. If the result is anti-dilutive, fully diluted earnings per share are equal to primary.

• • • •

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statement of Income

	52 Weeks Ended January 31, 1976	52 Weeks Ended February 1, 1975
• • • •		
Earnings per Share of Common Stock	$3.54	$2.69
Fully Diluted Earnings per Share	3.44	2.61

Financial Review

• • • •

Earnings per Share were $3.54, up 85 cents, and are based on average shares outstanding of 44.4 million and 44.3 million for the 1975 and 1974 fiscal years. Any dilution from the potential issuance of shares under the deferred compensation plan, the restricted stock purchase plan and the stock option plans would be less than 3%. Fully diluted earnings per share of $3.44 for 1975 and $2.61 for 1974 take into account the above items plus the shares issuable upon conversion of debentures.

• • • •

W. R. GRACE & CO.

Consolidated Statement of Income

	1975	1974
• • • •		
Net income per common and common equivalent share	$5.31	$3.83
Net income per common share assuming full dilution	$4.77	$3.47

Notes to Financial Statements

Note 8—Capital Stock:

• • • •

Authorized common stock of the Company is 50,000,000 shares ($1 par). Of unissued common stock, approximately 6,742,000 shares may be issuable upon conversion of various convertible debt obligations, exercise of stock options and granting of stock awards, and as provided for in various acquisition agreements.

• • • •

The average number of shares of common stock used to compute earnings per common and common equivalent share was 31,247,000 (1974—30,896,000 shares) including 89,000 common equivalent shares (1974—118,000 shares). The average number of shares of common stock used to compute earnings per common share assuming full dilution was 35,880,000 (1974—35,578,000 shares).

• • • •

INTERMOUNTAIN GAS COMPANY

Consolidated Statements of Income

	For the Years Ended September 30	
	1975	1974
• • • •		
Earnings per common share (Note 4):		
Assuming no dilution	$2.14	$1.80
Assuming full dilution	$2.02	$1.69

Notes to Financial Statements

4. Earnings per Common Share and Convertible Debentures:

At September 30, 1975, the 5½% convertible debentures, due June 1, 1991, were convertible into common stock at the rate of $15.50 per share and 71,432 shares of authorized and unissued common stock were reserved for such purpose.

The primary earnings per common share are computed based on the average number of shares outstanding during the periods shown as follows: 1,126,648 shares in fiscal 1975 and 1,108,062 shares in fiscal 1974. The fully diluted earnings per common share reflect the net reduction in earnings per common share which would have been realized if the 5½% debentures had, in fact, been converted in full at the beginning of fiscal 1975 and fiscal 1974. The computation of fully diluted earnings per common share takes into consideration elimination of the related interest expense and debt discount on the 5½% convertible debentures, net of income taxes.

THE MACKE COMPANY

Statements of Consolidated Income (Loss)

	For the Years Ended September 30	
	1975	1974
••••		
Earnings (loss) per common share and common equivalent share (Note 1):		
Continuing operations	$(.56)	$.63
Discontinued operations	(.34)	.02
Net income (loss)	$(.90)	$.65
Earnings (loss) per common share assuming full dilution (Note 1)	$(.90)	$.62

Notes to Financial Statements

1—Summary of Accounting Policies

••••

Earnings (loss) per Common Share—

Earnings (loss) per share have been computed on the weighted average number of shares of common stock and dilutive common stock equivalents (i.e. stock options) outstanding in each year. The weighted average number of common shares and dilutive common share equivalents for 1975 and 1974 were 2,947,755 and 2,952,212, respectively. All of the Company's outstanding debentures and preference stock are classified as senior securities and, therefore, are considered only for computing earnings (loss) per share assuming full dilution. The debentures were dilutive in 1974 and the related interest expense (less applicable income taxes) was added to net income for computing earnings per share assuming full dilution. As the Company had a net loss for 1975, all common stock equivalents and senior securities were anti-dilutive and were, therefore, not included in computing loss per share or loss per share assuming full dilution. In 1974, the preference stock and warrants were anti-dilutive and were not considered in computing earnings per share.

••••

PETROLANE INCORPORATED

Consolidated Statement of Income

	Year Ended September 30	
	1975	1974
••••		
Per share information (Note 1)		
Net income		
Common stock and common stock equivalents	$2.76	$2.08
Common stock—assuming full dilution	$2.47	$1.89

Notes to Financial Statements

1. Summary of Significant Accounting Policies

••••

I. Per Share Information

Under the provisions of generally accepted accounting principles, none of the Company's outstanding securities convertible into common stock are classified as common stock equivalents and, therefore, are considered only in the basis of computing per share information of common stock —assuming full dilution. The average number of shares outstanding during the year, as shown on the first line of the following computations to arrive at the shares used in computing net income per share of common stock, is the weighted average number of shares outstanding.

	Year Ended September 30	
	1975	1974
Average number of shares outstanding during the year	9,448,281	9,380,077
Shares issuable in connection with stock options using the treasury stock method applying average price of shares during the year	41,636	39,943
Shares reserved for sellers of a business with delivery being dependent upon certain levels of earnings that are being attained	91,369	78,963
Average number of shares including common stock equivalents	9,581,286	9,498,983
Shares issuable upon conversion:		
5½% Convertible Subordinated Debentures due 1987		64,995
$1.375 Cumulative Convertible Preferred Stock, Series A	1,395,217	1,402,657
Shares issued upon conversion of other securities during the year that were eliminated in computing the above average shares outstanding	35,213	4,292
Additional shares issuable in connection with stock options using the treasury stock method applying price of shares at end of year	54,500	
Average number of fully diluted shares	11,066,216	10,970,927

In the computation of per share information of common stock and common stock equivalents, net income was decreased for preferred stock dividend requirements ($1.375 per share) by $950,183 in 1975 and $954,549 in 1974.

In the computation of per share information of common stock—assuming full dilution, net income was increased for interest on convertible debentures, net of taxes based on income, by $23,500 in 1974.

THE TEXSTAR CORPORATION
Consolidated Statements of Earnings

	Years ended September 30,	
	1975	1974 (note 2)
••••		
Earnings (loss) per common share (note 10):		
Assuming no dilution:		
Continuing operations	$.44	.72
Discontinued operations	(.01)	.27
Net earnings	$.43	.99
Assuming full dilution:		
Continuing operations	.43	.66
Discontinued operations	(.01)	.23
Net earnings	$.42	.89

Notes to Financial Statements

(10) Earnings (loss) per common share

Earnings (loss) per common share—assuming no dilution were computed based on the weighted average number of common shares outstanding during each year after giving retroactive effect to the 5% stock dividends in 1975 and 1974. Common stock equivalents (options and warrants) were not included in these computations since the effect of dilutive common stock equivalents was not material to the amounts shown in the statements of consolidated earnings. Earnings (loss) per common share—assuming full dilution were computed based on the assumption that the convertible subordinated debentures had been converted into common stock at the beginning of each year. Accordingly, net earnings were increased by interest and amortization of financing expense (net of related taxes) applicable to the debentures, and the weighted average number of common shares outstanding after giving retroactive effect to the 5% stock dividends was increased by the number of shares into which the debentures are convertible. For purposes of both computations, net earnings were reduced by the dividends on preferred stock. If the preferred stock were assumed to have been converted at the beginning of each year, the effect on fully diluted earnings per share would be antidilutive. The weighted average number of common shares outstanding (in the fully-diluted computation) was also increased based on the assumption that dilutive employee stock options and outstanding stock purchase warrants had been exercised and that the proceeds had been used to purchase common shares for the treasury at the higher of the average market price during the respective years or at the closing market price at September 30, 1975 or 1974.

UNITED TELECOMMUNICATIONS, INC.

Consolidated Statement of Income

	Years Ended December 31, 1975	1974
• • • •		
Earnings per common share from continuing operations		
Assuming no dilution	$1.67	$1.54
Assuming full dilution	$1.55	$1.43
Earnings per common share		
Assuming no dilution	$1.67	$1.54
Assuming full dilution	$1.55	$1.44

Notes to Financial Statements

4. Common Stock

• • • •

Information regarding United stock is summarized below:

	Issued in 1975	Reserved at December 31, 1975
Conversion of preferred stock	152,741	8,988,176
Conversion of debentures	—	2,674,671
Exercise of warrants at $16.93	—	1,499,134
Officer and key employees stock options	—	606,297
Automatic dividend reinvestment plan	93,415	406,585
Employees stock purchase plan	10,727	803,288
Public offering at $13.00	2,500,000	—
Business combinations	306,284	315,000
	3,063,167	15,293,151

Earnings per common share is based on the weighted average number of shares outstanding and shares issuable assuming exercise of all dilutive options and warrants. Earnings per share assuming full dilution gives further effect to conversion of United's preferred stock and debentures, after adjustment of interest, net of income taxes.

EARNINGS LEVEL ATTAINMENT

FRIGITEMP CORP.

Consolidated Statements of Income

	Year Ended December 31 1975	1974
• • • •		
Earnings per common and common equivalent share (Notes 2 and 9)	$1.27	$1.07
Earnings per common and common equivalent share assuming full dilution (Notes 2 and 9)	$1.27	$ .98

Notes to Financial Statements

(9) Earnings per share:

Earnings per common and common equivalent share has been computed using the weighted average number of shares outstanding during each year after giving effect to a 2% stock dividend in 1974, a 4-for-3 stock split effected in the form of a stock dividend in 1974, and a 5% stock dividend in 1975.

Fully diluted per share data reflect, as applicable, additional dilution resulting from shares issuable upon conversions of the 6% subordinated debentures (after adding appropriate interest and other related charges, net of taxes) and contingently issuable shares based on businesses acquired attaining earnings levels not currently being met.

The weighted average number of shares used in the computation of primary and fully diluted earnings per share are as follows:

	Primary	Fully Diluted
1974	2,279,954	2,530,500
1975	2,655,887	2,655,887

NOTE CONVERSION

ELECTRO AUDIO DYNAMICS, INC.
Consolidated Statement of Income (Loss)

	Fiscal year ended August 2, 1975	Fiscal year ended August 3, 1974
• • • •		
Earnings (loss) per common and equivalent share (Note 7)		
Income (loss) from continuing operations	$(.33)	$.94
Loss from discontinued operations	(.03)	(.08)
Loss on disposition	(.11)	—
Net income (loss)	$(.47)	$.86
Earnings per common share assuming full dilution (Note 7)	—	$.76

Notes to Financial Statements

7. Preferred Stock, Common Stock, Per Share Data and Stock Options

• • • •

Earnings per common share assuming full dilution for 1974 are based also on the assumed conversion of the 8% subordinated convertible debentures as of the beginning of the period: the conversion of the 8.8% subordinated convertible notes since October 16, 1973 (note 5): and the conversion of the 6% convertible preferred stock since March 29, 1974 (note 2). The computation gives effect to the elimination of related interest and deferred debt expense amortization, net of taxes. For the fiscal year ended August 2, 1975, there was no dilution in earnings per share.

• • • •

HARNISCHFEGER CORPORATION
Statement of Income

	Year Ended October 31, 1975	Year Ended October 31, 1974
• • • •		
Earnings per common and common equivalent share		
Primary	$6.45	$3.78
Fully diluted	6.26	3.59

Notes to Financial Statements

Note 10—Earnings Per Common Share

The number of shares entering into the computation of earnings per common and common equivalent share is as follows:

	1975	1974
Primary:		
Average common shares outstanding	3,609,982	3,025,773
Common share equivalents resulting from:		
Dilutive stock options outstanding	26,411	12,849
Dilutive common stock purchase warrants outstanding to July 1, 1974	—	38,943
Total—Primary	3,636,393	3,077,565
Fully Diluted:		
Average common shares outstanding	3,609,982	3,025,773
Common share equivalents resulting from:		
Dilutive stock options outstanding	31,267	15,799
Dilutive common stock purchase warrants outstanding to July 1, 1974	—	53,492
Assumed conversion of the 6% subordinated convertible note, outstanding to August 13, 1975	115,719	162,239
Total—Fully Diluted	3,756,968	3,257,303

In computing fully diluted earnings per share, net income was adjusted for the related interest expense, net of applicable income taxes.

Assuming that the 930,000 shares of common stock sold in August, 1975 for the net proceeds of $22,627,000, and the 481,250 shares of common stock sold in April, 1974 for the net proceeds of $7,300,000, had been outstanding since the beginning of fiscal 1974, with such $29,927,000 proceeds applied to reduce bank borrowings and to purchase, for retirement, the common stock into which the 6% subordinated convertible note was converted, the primary earnings per common and common equivalent share, after adjustment for the interest expense on such borrowings, net of applicable income tax effect, would have been $5.54 and $3.04 for the years ended October 31, 1975 and 1974, respectively.

MOLYCORP, INC.

Consolidated Statement of Income

	Years ended December 31, 1975	1974
••••		
Primary Earnings per Share (Note 8)	$2.27	$4.34
Fully Diluted Earnings per Share (Note 8)	$2.22	$4.13

Notes to Financial Statements

8. Capital Stock

Preferred stock. Each share of preferred stock is convertible into 1.16 shares of common stock at the option of the holder, and may be redeemed at the option of the Company at any time, in whole or in part, subject to long-term debt restrictions, at $60 per share on or prior to July 31, 1976, reducing at the rate of $1 per annum thereafter to a minimum redemption price of $50 per share for the fiscal year ending July 31, 1986 and thereafter.

••••

Earnings per share. Primary earnings per share were based upon weighted average common shares outstanding plus weighted average common share equivalents for stock options and warrants outstanding during each year after provision was made for dividends on preferred shares. The number of shares used to compute primary earnings per share was 3,092,562 and 3,138,860 for 1975 and 1974, respectively.

Fully diluted earnings per share were based upon the weighted average common shares and common share equivalents outstanding and the assumed conversion into common shares of the $2.50 preferred shares and the 6½% subordinated convertible note. The number of shares used to compute fully diluted earnings per share was 3,460,649 and 3,448,264 for 1975 and 1974, respectively.

ANIXTER BROS., INC.

Consolidated Statements of Income and Retained Earnings

	For the Two Years Ended July 31, 1975	1974
••••		
Average common and common equivalent shares outstanding (Note A-6)	$3,090	$3,090
Income per common and common equivalent share (Note A-6)	$2.27	$1.55
Income per common share—assuming full dilution (Note A-6)	$2.18	$1.50

Notes to Financial Statements

(A) Summary of Significant Accounting Policies:

••••

6. Income and Dividends Per Share:

Income per common and common equivalent share was computed on the weighted average number of common and common equivalent shares outstanding during each year. In computing common share equivalents, appropriate consideration was given to the dilutive effect, if any, of shares reserved for issuance upon exercise of outstanding stock options and warrants, and to shareholders of acquired companies dependent upon future events. In computing income per share on a full dilution basis, consideration was given to the dilutive effect of shares reserved for issuance upon conversion of the 7% Convertible Subordinated Notes. Cash dividends per share were based on shares of common stock outstanding at the record date.

Exhibit 1. Computation of Income Per Share

The following are computations of income per share for the five years ended July 31, 1975:

	Average Shares Outstanding	1971	1972	1973	1974	1975
1.	Average Common and Class B shares outstanding	3,003	3,039	3,058	3,080	3,040
2.	Net additional shares outstanding assuming stock options exercised and proceeds used to purchase treasury stock at the average market price during the year	15	6	3	9	50
3.	Shares assumed to be issued to former owners of acquired companies dependent upon future events	30	20	12	1	
4.	Average common and common equivalent shares outstanding	3,048	3,065	3,073	3,090	3,090
5.	Net additional shares outstanding assuming stock options exercised and proceeds used to purchase treasury stock at the average market price at the end of the period	6	1		2	3
6.	Additional shares outstanding assuming conversion of Convertible Subordinated Notes				168	168
7.	Adjusted average common and common equivalent shares outstanding for fully diluted computation	3,054	3,066	3,073	3,260	3,261
8.	Net reduction in shares outstanding assuming all stock options and warrants exercised and proceeds used to purchase treasury stock	(615)	(817)	(1,308)	(1,665)	(1,061)
9.	Additional shares outstanding assuming conversion of Convertible Subordinated Notes	62	62	63		
10.	Adjusted average common and common equivalent shares outstanding for antidilutive computation	2,501	2,311	1,828	1,595	2,200
	Net Income (Loss)					
11.	Net income (loss) as reported in summary of operations	$351	$(592)	$1,070	$4,794	$7,010
12.	Additional income assuming conversion of Convertible Subordinated Notes	68	71	78	88	88
13.	Adjusted net income (loss) for fully dilutive and anti-dilutive income per share computation	$419	$(521)	$1,148	$4,882	$7,098
	Net Income (Loss) Per Share					
14.	Net income (loss) per common and common equivalent share (11÷4)	$.12	$(.19)	$.35	$1.55	$2.27
15.	Net income (loss) per common and common equivalent share on a fully dilutive basis (11÷7) 1971 to 1973 (13÷7) 1974 and 1975	$.12	$(.19)	$.35	$1.50	$2.18
16.	Net income (loss) per common and common equivalent share on an anti-dilutive basis (13÷10)	$.17	$(.23)	$.63	$3.06	$3.23

PALL CORPORATION
Consolidated Statements of Earnings

	For the years ended July 31 1975	1974
••••		
Earnings per share:		
Primary	$3.14	$1.88
Fully diluted	2.84	1.73

Notes to Financial Statements

Note 10—Subsequent Event

On September 24, 1975, the Board of Directors recommended for stockholder approval both an increase in the authorized shares from 1,700,000 to 3,000,000, and a two-for-one split of the Company's Common Stock. If the proposed increase in authorized shares and stock split are approved at the Annual Meeting of Shareholders to be held on November 20, 1975, both measures will become effective as of the close of business on November 21, 1975.

The accompanying financial statements and notes regarding the conversion prices of the 6¼% Convertible Subordinated Debentures and the 5⅛% Convertible Note and the Stock Option Plans are prior to giving effect to the proposed two-for-one split. After giving effect to the proposed two-for-one split, the conversion price of the 6¼% Convertible Subordinated Debentures will be $10.00 per share, and the conversion price of the 5⅛% Convertible Note will be $18.77 per share.

For purposes of per share data, the following gives effect to the proposed two-for-one stock split:

	1975	1974
Earnings:		
Primary	$1.57	$0.94
Fully-diluted	1.42	0.86
Average shares outstanding	2,265,506	2,215,098

PARKER DRILLING COMPANY
Consolidated Statement of Income

	Years Ended August 31 1975	1974
••••		
Earnings per common share and common equivalent share (Note 1)	$3.52	$2.32
Earnings per common share assuming full dilution (Note 1)	$3.34	$2.21

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

••••

Earnings Per Share—Earnings per common share and common equivalent share were computed by dividing net income, as adjusted for dividends on preferred stock, by the weighted average number of common shares and common stock equivalents outstanding during each year. Common shares issued or issuable under stock options in 1975 and stock options and the stock purchase warrant in 1974 are common stock equivalents.

Earnings per share assuming full dilution are based on the shares outstanding above plus the number of common shares that would have been issued assuming the 8½% notes and preferred stock had been converted into common stock at the beginning of the year, adjusted as to options for market prices where such prices were higher than average market prices. Preferred dividends were eliminated.

SOUTHDOWN, INC.

Statement of Consolidated Earnings

	Year Ended December 31, 1975	1974
••••		
Earnings per share (Note 10):		
Primary:		
Earnings from continuing operations	$1.94	$1.31
Earnings from discontinued operations	.12	2.01
Net earnings	$2.06	$3.32
Assuming full dilution:		
Earnings from continuing operations	$1.84	$1.28
Earnings from discontinued operations	.11	1.77
Net earnings	$1.95	$3.05

Notes to Financial Statements

Note 10—Earnings Per Share and Capital Stock:

Earnings per share have been computed using the average number of shares of common stock and common stock equivalents outstanding. The convertible preferred stock and the outstanding employee stock options of the Company are deemed to be common stock equivalents and accordingly, earnings per share computations include the common shares issuable upon conversion or exercise. Fully diluted earnings per share assume conversion of the 7½% subordinated convertible notes.

••••

PREFERRED STOCK CONVERSION

ESMARK, INC.

Consolidated Statement of Earnings

	For the years ended Oct. 25, 1975	Oct. 26, 1974
••••		
Net earnings per common share:		
Primary	$5.05	$4.47
Fully diluted	$4.74	$4.17

Financial Comments

Earnings per share and dividends

Primary earnings per common share are based on (a) 15,521,000 shares (14,855,000 shares in 1974), consisting of the weighted average number of common and common equivalent shares outstanding during the year, and (b) reported net earnings reduced by $1.3 million ($1.7 million in 1974) for preferred dividend payments. Common equivalent shares consist of dilutive stock options. If the preferred shares that were converted into common shares in 1975 had been converted at the beginning of 1974, the primary earnings per share amounts would have been the same as the fully diluted amounts.

Fully diluted earnings per common share are based on (a) 16,804,000 shares (16,313,000 shares in 1974), consisting of the weighted average number of common and common equivalent shares outstanding during the year and the common shares issuable upon conversion of the outstanding convertible preferred shares (to the dates of conversion), and (b) reported net earnings.

••••

INTERPACE CORPORATION

Consolidated Statements of Income and Income Retained in the Business

	Year ended December 31, 1975 (Note 1)	1974
••••		
Net income per share of common stock:		
Primary	$3.64	$2.85
Fully diluted (Note 5)	$3.19	$2.61

Notes to Financial Statements

Note 5—Stockholders' Equity

The preferred stock is convertible into 2⅝ shares of common stock and is redeemable at the option of the Company at $110 per share. Conversion of the preferred stock is assumed in the calculation of fully diluted net income per share of common stock.

• • • •

KIRBY INDUSTRIES, INC.

Statement of Earnings

	Years ended July 31, (Note 11) 1975	1974
• • • •		
Earnings per share of common stock (note 9):		
Primary	$4.35	$4.05
Fully diluted	$4.24	$4.05

Notes to Financial Statements

(9) Earnings per Common Share

Primary earnings per common share for fiscal year 1975 are based on the weighted average number of common and common equivalent shares outstanding of 1,587,276 and after deduction of preferred stock dividends of $37,850. Common equivalent shares reflect the exercise of potentially dilutive stock options and warrants.

Earnings per common share for fiscal year 1974 are based only on the weighted average number of common shares outstanding of 1,598,737 and after deduction of preferred stock dividends of $37,850, as no material dilution would have occurred assuming the outstanding dilutive securities were converted or exercised.

Fully diluted earnings per share for fiscal year 1975 are based on 1,637,437 shares which reflect maximum additional dilution from assuming the conversion of the outstanding preferred stock and from the use, under the treasury stock method, of the year-end market price in computing the common equivalent shares since such price was higher than the average market price during the year.

TENNECO INC.

Consolidated Income

	Year Ended December 31, 1975	1974
• • • •		
Earnings per Share of Common Stock (Note 6):		
Average shares outstanding	$4.15	$3.98
Fully diluted	$3.63	$3.35

Notes to Financial Statements

(6) Earnings per Share, Common Stock and Stock Option Plan:

Earnings per share of common stock are based on the average number of shares of common stock outstanding during each period. Such average shares outstanding were 75,608,800 and 70,079,891 shares for the years 1975 and 1974, respectively. Earnings per share computations assuming full dilution additionally include the average common shares issuable for convertible or exchangeable securities, stock options and warrants during each period and the elimination of the related dividend and interest requirements, less applicable federal income taxes. Such average shares assuming full dilution were 92,583,448 and 91,964,825 shares for the years 1975 and 1974, respectively.

During 1975, 3,779,698 shares of common stock were issued upon conversion or exchange of securities, 3,608,283 shares were issued in connection with common stock warrants and 11,250 shares were issued in connection with stock options.

Tenneco Inc. has reserved an aggregate of 500,000 shares of common stock under a Qualified Stock Option Plan which provides for the granting of options at 100% of the fair market value at date of grant. At December 31, 1975, options had been granted for 487,500 shares under such plan; options for the purchase of 270,377 shares had been exercised.

Option changes during 1975 were as follows:

Shares issuable at beginning of year	240,873
Options exercised	(11,250)
Options cancelled	(12,500)
Shares issuable at end of year	217,123
Shares reserved for options to be granted:	
At beginning of year	—
At end of year	12,500

At December 31, 1975, the shares of Tenneco Inc. common stock reserved for issuance were as follows:

Conversion of second preferred stock	983,974
Conversion of preference stock (including 805,019 shares of common stock issuable to a subsidiary)	7,518,934
Exercise of common stock warrants (at $30.07 per share through April 1, 1979)*	2,675,000
Exchange of Tenneco Corporation second preferred stock, stated value $27.75 (1.03 shares of common stock issuable for each share of second preferred stock to May 1, 1983)	986,508
Exchange of Tenneco Corporation debentures (at $28.49 per share through September 30, 1992)	3,507,336
Stock option plan and other	735,088
	16,406,840

*Cash proceeds from exercise of these warrants are required to be applied to the retirement of Tenneco Inc. 6% Debentures due 1979.

The number of shares issuable, as set forth above, is subject to adjustment under certain conditions to protect against dilution.

Reference is made to Note 9 under the subcaption "Tenneco Offshore" concerning Tenneco Inc.'s contingent obligation to issue shares of its common stock.

• • • •

STOCK OPTIONS

ARA SERVICES, INC.
Consolidated Statements of Income

	For the Fiscal Years Ended October 3, 1975	September 27, 1974
• • • •		
Fully Diluted Earnings Per Common and Common Equivalent Share	$3.25	$3.65

Notes to Financial Statements

1—Significant Accounting Policies

• • • •

Per Share Earnings—Fully diluted earnings per share are based upon the weighted average number of shares outstanding during the year plus the equivalent shares that would result from the conversion or exercise of the convertible debentures, preferred stock and dilutive stock options and warrants. Primary earnings per share are approximately the same as fully diluted.

LESLIE SALT CO.

Statement of Income and Retained Earnings

	For the Years Ended December 31, 1975	1974
••••		
Earnings per Common and Equivalent Share:*		
Operating and other	$3.04	$2.34
Real property	(.07)	.28
Income before extraordinary item	2.97	2.62
Extraordinary item	1.02	.73
Total	$3.99	$3.35
Earnings per Common Share Assuming Full Dilution:*		
Operating and other	$2.99	$2.32
Real property	(.07)	.28
Income before extraordinary item	2.92	2.60
Extraordinary item	1.00	.73
Total	$3.92	$3.33

*Per share amounts computed to reflect a stock split effected as a 100% stock dividend payable February 10, 1976.

Financial Review

Capital Stock, Stock Compensation Plans, and Earnings per Share

••••

Earnings per common and equivalent share are computed in accordance with Opinion No. 15 of the Accounting Principles Board by dividing income as adjusted (Table B below) by the average number of common and equivalent shares outstanding during the year (Table A below).

Table A—Common and Equivalent Shares

	1975	1974
Average number of shares of capital stock outstanding during the year	736,288	736,288
Common share equivalents resulting from:		
Assumed exercise of stock options	166,000	166,000
Less assumed treasury shares acquired at average market price during the year	(138,908)	(146,658)
Shares contingently issuable under Performance Share Plan	37,124	18,764
Total common and equivalent shares	800,504	774,394

Table B—Income as Adjusted

	1975 (In thousands)	1974 (In thousands)
Operating and other income	$2,435	$1,804
Assumed after-tax reduction in interest resulting from exercise of stock options	—	10
Adjusted operating and other income	2,435	1,814
Real property income	(53)	215
Extraordinary item	813	567
Adjusted net income	$3,195	$2,596

Earnings per common share assuming full dilution are computed by dividing income (no adjustment necessary in 1975 and 1974) by the adjusted average number of common and equivalent shares outstanding during the year (Table C below).

Table C—Common and Equivalent Shares as Adjusted

	1975	1974
Common and equivalent shares (Table A above)	800,504	774,394
Additional shares assuming exercise of stock options and acquisition of treasury shares at end of year market price ($28.25 per share in 1975 and $19.19 in 1974)	14,794	1,972
Adjusted total common and equivalent shares	815,298	776,366

In view of the relationship of 138,908 "assumed treasury shares acquired" during 1975 to shares of the Company traded on the Pacific Stock Exchange in that year (approximately 20,000 shares), management believes the common equivalent share total above may not be fully representative of the potential impact that might result from exercise of the option. Consequently, the following supplemental data are set forth:

- In addition to the consideration received for exercise of the option ($2,224,000) the Company would be entitled to income tax deductions for the compensatory element inherent in such exercise. Such deductions are estimated to result in a net tax saving of $1,282,000 (based upon the year end 1975 quoted market price per share).
- Consequently, if shares could not have been purchased in the market, exercise of the option as of December 31, 1975 would have resulted in a total of approximately $3,506,000 being available to the Company for investment or debt reduction and the total shares outstanding would have been 939,412. In 1974, the aggregate available for investment would have been $2,766,000 and the total shares 921,052.

STUDEBAKER-WORTHINGTON, INC.
Consolidated Statement of Income

	Years Ended December 31	
	1975	1974
• • • •		
Earnings per share of common stock:		
Primary:		
Income from continuing operations	$7.02	$1.56
Discontinued operations	1.39	.19
Extraordinary item	(.27)	—
Net income	$8.14	$1.75
Assuming full dilution:		
Income from continuing operations	$5.26	$1.72
Discontinued operations	.90	.13
Extraordinary item	(.18)	—
Net income	$5.98	$1.85
Average common shares outstanding:		
Actual	3,257	3,311
Assuming full dilution	4,994	4,972

Notes to Financial Statements

Capital Stock

• • • •

The changes in capital stock during 1975 are as follows:

	Preferred Stock		Common Stock			
	Series A	Series B	Issued	Treasury	Out-standing	Fully Diluted
Outstanding, January 1, 1975	1,906,125	142,625	6,238,372	2,945,742	3,292,630	4,936,163
Conversion of preferred stock	(7,200)	—	5,400	—	5,400	—
Exercise of common stock options	—	—	—	(26,118)	26,118	26,118
Shares purchased	—	—	—	100,000	(100,000)	(100,000)
Outstanding, December 31, 1975	1,898,925	142,625	6,243,772	3,019,624	3,224,148	4,862,281

The preferred stock is redeemable at any time at the option of the Company, at the following prices: Series A at $51.00 per share on or after December 31, 1975, reducing by $.50 per share per year until December 31, 1977; and Series B at $102.00 per share on or after December 31, 1975, reducing by $1.00 per share per year until December 31, 1977.

Fully diluted earnings per share were computed on the basis of average number of common shares outstanding assuming conversion of all preferred stock, the exercise of all shares covered under outstanding stock options that have a dilutive effect, and the use of said proceeds to acquire treasury shares.

AMAX INC.
Consolidated Statement of Current and Retained Earnings

	For the Years Ended December 31, 1975	1974
••••		
Per Common Share:		
Primary earnings (Note 15)	$4.43	$5.47
Fully diluted earnings (Note 15)	$4.13	$4.98
Dividends declared	$1.75	$1.63¾

Notes to Financial Statements

15. Shareholders' Equity:

There are 50,000,000 shares of common stock, $1 par value, authorized. At December 31, 1975, 31,096,652 shares were issued while 3,816,415 shares were reserved for issuance upon conversion of Series A Convertible Preferred Stock, 737,778 shares were reserved for exercise of warrants and 693,884 shares were reserved for exercise of employee stock options which have been or may be granted. An additional 1,746,720 are reserved for issuance upon conversion of Series B Preferred Stock sold in February, 1976.

Each of the 7,000,000 authorized shares of Series A Convertible Preferred Stock outstanding has a par value of $1, is convertible into 2.43351 shares of common stock, and is entitled to a cumulative annual dividend of $5.25. The shares are redeemable at $105 commencing September 1, 1976: the redemption price will then be reduced by $1.25 biennially until September 1, 1984, at which date it will become and remain at $100. Upon voluntary liquidation, holders would be entitled to receive a liquidation preference of $105 per share until September 1, 1976 and thereafter an amount equal to the then current redemption price: upon involuntary liquidation, such holders would be entitled to receive $100 per share.

At December 31, 1975 and 1974 there were 737,778 and 741,216 warrants outstanding that expire October 1, 1977 and entitle the holders to purchase shares of common stock at the rate of one share per warrant at a purchase price of $47.50 per share, subject to adjustment as set forth in the warrant agreement. In connection with the RST litigation settlement, AMAX issued transferrable warrant price adjustment certificates entitling the holder to exercise the warrants at $42.50, rather than the exercise price of $47.50 per share applicable in the absence of such a certificate.

Primary earnings per share are based on the average number of common shares outstanding and, when dilutive, assume the exercise of warrants and of stock options. Fully diluted earnings per share assume the conversion of all outstanding Convertible Preferred Stock as well as the exercise, when dilutive, of all warrants and stock options.

BENEFICIAL STANDARD MORTGAGE INVESTORS
Statement of Operations

	Year Ended July 31 1975	1974
••••		
Net Earnings (Loss) Per Common Share:		
Primary	($12.68)	$2.72
Fully Diluted	($12.68)	$2.58

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

••••

Earnings (Loss) Per Common Share:

Primary earnings (loss) per share are based on the weighted average number of shares outstanding during each year. Assumed exercise of warrants and options is antidilutive in relation to the undistributed earnings (deficit), and therefore has not been included in the calculation of primary earnings (loss) per share.

In 1974, fully diluted net earnings per share is based on the weighted average number of shares outstanding during that year, plus the number of shares which would have been issued if the outstanding warrants and options were exercised and the 6½% convertible subordinated debentures were converted as of the beginning of the year. Proceeds from exercise have been assumed to be used first to purchase treasury shares (to the extent of 20% of outstanding shares), and, second to reduce outstanding debt. Fully diluted loss per share is the same as primary earnings per share for 1975 since exercise of warrants or options and conversion of debentures would have been antidilutive.

CONDEC CORPORATION
Consolidated Statement of Earnings

	Years ended July 31, 1975	Restated 1974
••••		
Per share of common stock and common stock equivalents:		
Income before extraordinary credit	$1.77	$ .37
Extraordinary credit	.88	—
Net income	$2.65	$ .37
Per share of common stock, fully diluted:		
Income before extraordinary credit	$1.21	$ .37
Extraordinary credit	.50	—
Net income	$1.71	$ .37

Financial Review

Significant Accounting Policies

••••

Earnings per share of common stock and common stock equivalents are based on the average number of shares of common stock outstanding during each year plus the common shares issuable upon conversion of the 10¢ convertible preferred stock, which is considered a "common stock equivalent". Fully diluted earnings per share assume conversion of the 10¢ convertible preferred stock and all convertible debentures into common stock, with elimination of the interest expense (after taxes based on income) and dividends, and also exercise of all outstanding stock options and warrants, with the assumed proceeds from exercise used to purchase (and thereby reduce) outstanding common stock at the higher of its average market price during the year or market price at year end. These adjustments are made only to the extent they reduce earnings per share.

ROHR INDUSTRIES, INC.
Consolidated Statement of Operations

	Year ended July 31, 1975	1974 Restated
••••		
Net Income (Loss) Per Average Share of Common Stock:		
Primary:		
Income (loss) from continuing operations	$(1.39)	$1.77
Income (loss) from operations to be discontinued	(.43)	.04
Income (loss) from disposal including provision for phase-out	(.09)	
	$(1.91)	$1.81
Fully Diluted:		
Income (loss) from continuing operations	$(1.39)	$1.63
Income (loss) from operations to be discontinued	(.43)	.04
Income (loss) from disposal including provision for phase-out	(.09)	
	$(1.91)	$1.67

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

••••

Earnings Per Share

Primary earnings per share are based on net earnings (loss) adjusted for preferred dividends and the average number of outstanding common shares and common share equivalents (stock options and warrants). Fully diluted earnings per share assume (to the extent such is not anti-dilutive) the conversion of the Company's convertible preferred stock and preferred stock warrants and consideration of related interest expense and dividends.

BT MORTGAGE INVESTORS
Statements of Income (Loss)

• • • •

Per share of Beneficial Interest (note 1(f))	$(10.60)	.34

Notes to Financial Statements

(1) Accounting Policies

The more significant accounting policies followed by the Trust are as follows:

• • • •

(f) Net Income (Loss) per Share

Net income (loss) per share was computed based on the average number of shares outstanding, 2,115,958 in 1975 and 2,140,004 in 1974. The outstanding warrants were not included in computing earnings per share in both 1975 and 1974 since the result would be anti-dilutive. No warrants were exercised during 1975; warrants exercised during 1974 amounted to 14,335.

Exibit I Computation of Earnings per Share

	Five years ended September 30,				Period from Oct. 13, 1970 (commencement of operations)
	1975	1974	1973	1972	1971
Primary earnings per share:					
Net income (loss)	$(22,418,000)	723,000	5,632,000	4,595,000	2,300,000
Weighted average number of shares outstanding ... Shs.	2,115,958	2,140,004	2,078,861	1,934,799	1,493,450**
Per share	$(10.60)	.34	2.71	2.37	1.54
Fully-diluted earnings per share:					
Net income	—	—	5,632,000	4,595,000	2,300,000
Add:					
Interest on convertible subordinated debentures	—	—	—*	41,000	411,000
Interest on assumed retired debt	—	—	—*	95,000	—
Amortization of debenture discount and expenses	—	—	—*	2,000	21,000
	—	—	5,632,000	4,733,000	2,732,000
Less adjustment of advisory fees	—	—	—*	11,000	36,000
Net income, as adjusted	$ —	—	5,632,000	4,722,000	2,696,000
Weighted average number of shares outstanding (as above) ... Shs.	2,115,958	2,140,004	2,078,861	1,934,799	1,493,450
Shares applicable to convertible debentures converted during the year, excluding shares included in weighted average above	—	—	933	21,856	315,692
Shares applicable to warrants exercised during the year, excluding shares included in weighted average above	—	—	73,480	5,704	—
Shares reserved for conversion of subordinated debentures at year end	—	—	—	21,691	168,210
Weighted incremental shares applicable to warrants not yet exercised	—	—	82,034	139,816	—
Shs.	2,115,958	2,140,004	2,235,308	2,123,866	1,977,352
Per Share	$(10.60)***	.34***	2.52	2.22	1.36

*Adjustment not material in 1973.
**After adjustment for two-for-one stock split.
***Anti-dilutive effect for 1975 and 1974.

JIM WALTER CORPORATION

Consolidated Statement of Income and Retained Earnings

	For the year ended August 31, 1975	1974
••••		
Primary net income per share (Note 8)	$4.05	$3.65
Fully diluted net income per share (Note 8)	$3.86	$3.48

Notes to Financial Statements

Note 8—Earnings Per Share

Primary earnings per share were computed by dividing net income (after deducting applicable preferred dividends) by the weighted average number of shares of common stock and common stock equivalents outstanding during each year. The series 3 voting convertible-third preferred stock and the $1.60 cumulative convertible voting fourth preferred stock were considered to be the equivalent of common stock during each year. The series 1, sixth preferred stock was considered to be the equivalent of common stock in 1974 and for the portion of 1975 that such stock was convertible. Common stock equivalents also include the number of common shares issuable on the exercise of dilutive common stock purchase warrants and employee stock options less the number of shares of common stock which could have been purchased with the proceeds from the exercise of such warrants and options: these purchases were assumed to have been made at the average market price of the common stock during the year, or that part of the year for which the security was outstanding. Primary earnings per share for 1975 would not have been materially diluted had all conversions during the year ended August 31, 1975 occurred on September 1, 1974.

Fully diluted earnings per share were determined on the assumption that at the beginning of each year, or on the issue date, if later, all then outstanding convertible preferred stock, convertible debentures, stock options and warrants having a dilutive effect on earnings per share had been converted or exercised. Applicable preferred dividends and interest expense (net of tax effect) were eliminated. As to the dilutive common stock purchase warrants and employee stock options, outstanding shares were increased as described above for primary earnings per share except that purchases of common stock were assumed to have been made at the higher of either the market price of the common stock at the end of the year or the average market price for the year.

SUPPLEMENTARY EARNINGS PER SHARE

For some companies, conversions during the current period would have affected primary earnings per share if they had taken place at the beginning of the period. Opinion No. 15 requires those companies to disclose what primary earnings per share would have been if the conversions had taken place at that time (or date of issuance of the security, if within the period). Similar supplementary per share data are required to be furnished if conversions occur after the close of the period but before completion of the financial report.

Some companies may have sold common stock or common stock equivalents during the current period or shortly after its close but before completion of the financial report. If a portion or all of the proceeds of the sale has been or is to be used to retire preferred stock or debt, Opinion No. 15 requires disclosure of what the earnings per share would have been if the retirement had taken place at the beginning of the period (or date of issuance of the retired security, if later).

Eight excerpts from financial statements are presented that illustrate the disclosure of supplementary earnings per share calculated in the preceding circumstances. The examples are classified according to the change in capitalization that occurred.

EXCHANGE OF COMMON AND PREFERRED STOCK

CERTAIN-TEED PRODUCTS CORPORATION

Notes to Financial Statements

9. ••••

In accordance with its terms, the Series B Convertible Preferred Stock was converted into Common Stock on December 31, 1975. If the Series B Convertible Preferred Stock had been converted on January 1, 1975, the primary earnings per share would have been equal to the fully diluted amounts shown in the consolidated statement of operations for the year ended December 31, 1975.

••••

COOPER INDUSTRIES, INC.
Notes to Financial Statements

Note 7—Supplementary Earnings Per Share. In 1975, all outstanding shares of Series A Preferred stock were converted to common stock. Had these conversions, as well as conversions which occurred during 1974, taken place at January 1, 1974, primary earnings per share would have been $5.83 in 1975 and $4.44 in 1974 compared with the actual reported amounts of $6.06 and $4.87.

STANWOOD CORPORATION
Statement of Operations and Deficit

	1975	1974
••••		
Per share data (Note 11a):		
Income (loss) continuing operations	$(3.92)	$ .14
Income (loss) discontinued operations	(.80)	.09
Extraordinary item	—	.78
Net income (loss)	$(4.72)	$1.01
Supplemental per share data (Note 11b):		
Income (loss) continuing operations	$(1.66)	$ .27
Income (loss) discontinued operations	(.38)	.04
Extraordinary item	—	.31
Net income (loss)	$(2.04)	$ .62

Notes to Financial Statements

Note 11—Per Share Data

(a) Income (loss) per share is based on the average number of shares of common stock outstanding in each year giving retroactive effect to the 1 for 5 common stock exchange (Note 1b), after deducting preferred dividend requirements of $452,888 in each year. The average number of shares includes those issued on conversion of the $.46 ⅔ preferred stock (Note 1b) from the date of conversion. The assumed conversion of securities and exercise of options and warrants would have an antidilutive effect in each year.

(b) Supplemental per share data assumes that the conversion of the $.46 ⅔ preferred stock had taken place at the beginning of the fiscal 1974 year.

URS CORPORATION
Notes to Financial Statements

Note 9—Preferred Stock Issue

During the year ended October 31, 1974, the Company's Board of Directors authorized creation of a new class of preferred stock, which was approved by the shareholders during the year ended October 31, 1975. Subsequently, an exchange offer was made to all common shareholders to exchange four shares of Common Stock for one share of Series A $1.20 Convertible Preferred Stock. Pursuant to this offer, holders of common shares tendered 654,732 common shares in exchange for 163,683 preferred shares in May 1975.

The preferred stock carries cumulative annual dividends of $1.20 per share, has a par value of $1.00 per share, and has no voting rights.

Upon liquidation or insolvency of the Company, the owner of each preferred share would be entitled to the payment of $12.00 plus accrued dividends. This payment would be due after all claims of creditors had been satisfied but before any payments to holders of common stock.

Each share of preferred stock is convertible into 1½ shares of common stock at any time prior to May 31, 1985.

The Board of Directors subsequent to the date of the auditor's report formally retired 654,732 common shares received under the Exchange Offer and the financial statements reflect this retirement.

Following are actual and pro forma calculations of net income available per common and common equivalent share, assuming the exchange had not been made in 1975, and assuming the exchange as of November 1, 1974.

	Year Ended October 31,			
	1974	1975		
	Actual	Assuming No Exchange	Actual Exchange May 15, 1975	Assuming Exchange November 1, 1974
Net income, as reported	$1,810,550	$1,507,362	$1,507,362	$1,507,362
Dividend requirements			90,062	196,420
	$1,810,550	$1,507,362	$1,417,300	$1,310,942
Average common and common equivalent shares:				
Before exchange	3,369,906	3,380,916	3,380,916	3,380,916
Exchange			300,085(1)	654,732
Average common and common equivalent shares, after exchange	3,369,906	3,380,916	3,080,831	2,726,184
Net income available for common and common equivalent shares	$.54	$.45	$.46	$.48

(1) Weighted for the period May 15, 1975 through October 31, 1975.

EXCHANGE OF COMMON STOCK AND DEBENTURES

GULF RESOURCES AND CHEMICAL CORP.

Notes to Financial Statements

(4) Long-Term Debt, Credit Agreement, Warrants and Dividend Restrictions

• • • •

During 1975, Gulf called all of its outstanding 6.25% convertible subordinated debentures for redemption. By the redemption date of July 21, 1975, all but $70,000 principal amount of debentures were tendered for conversion into Common Stock at a rate of $13.18 per share. The remaining debentures were redeemed by Gulf. Conversion of debentures in 1975 resulted in the issuance of 1,511,074 shares of Common Stock. Net income per share on common and common equivalent shares would have been $3.61 for the year ended December 31, 1975, if such conversion had taken place January 1, 1975.

• • • •

SALE OF STOCK FOLLOWED BY RETIREMENT OF DEBT

JOY MANUFACTURING COMPANY

Notes to Financial Statements

Note 12—Stock Transactions and Income Per Share

On September 16, 1975, a 100% common stock distribution was declared to shareholders of record at October 28, 1975 and was distributed on November 12, 1975. State legal regulations required the issuance of the additional shares at $1 par value. Accordingly, the 100% distribution was recorded in fiscal 1975 as a transfer of $6,044,000 ($1 par value) from paid-in-capital to the common stock account. All previously reported per share information has been restated to give retroactive effect to the 100% stock distribution recorded in fiscal 1975. Net income per share would have been $7.01 for fiscal 1975 before giving effect to the 100% stock distribution.

On May 29, 1975, the Company sold 700,000 shares of common stock for $46,730,000, net of related issuance costs, to a group of underwriters for public distribution. Funds received from the sale were used to repay notes payable to banks of $45,000,000 under a revolving credit agreement and the balance was used for working capital requirements. If the repayment of the retired debt had occurred at the beginning of fiscal 1975 and 1974 and the equivalent number of shares to eliminate this debt were outstanding at the beginning of each period, pro forma net income per share of common stock would be $3.35 (1975) and $1.76 (1974) after giving effect to the 100% stock distribution and the reduction of interest expense net of applicable income taxes for each year.

MIDDLE SOUTH UTILITIES, INC.
Notes to Financial Statements
5. Commitments and Financing

• • • •

In January 1976, the Company sold 7,500,000 shares of its $5 par value common stock. The net proceeds from the sale of the common stock, $118,328,000 plus $1,672,000 of treasury funds, were used to repay, in part, the Company's outstanding bank loans.

The pro forma earnings per share for the year ended December 31, 1975, assuming that the 7,500,000 shares of common stock had been issued to replace $120,000,000 of the Company's promissory notes outstanding during the year ended December 31, 1975 would have been $1.60, based on an adjusted weighted average number of common shares outstanding of 56,719,424.

READING & BATES OFFSHORE DRILLING COMPANY
Notes to Financial Statements
Note 1. (A) Summary of Significant Accounting Policies

• • • •

Pro Forma Statements—The Company sold 1,000,000 shares of Common Stock in a public offering in September 1975. Proceeds of $17,690,000 from such sale were received in October 1975 and were used to repay that amount of the Company's bank borrowings. A pro forma balance sheet is presented to show the effect of the receipt of the proceeds from the sale and the application of the proceeds to reduce bank borrowings in October 1975 as if they had occurred at September 30, 1975. The following table compares amounts shown on the statement of income with pro forma amounts which show the results of operations during 1975 assuming the Common Stock had been issued at April 30, 1975, the date of issue of the debt retired.

	As reported	Pro forma
Net income	$24,884,826	$25,398,975
Earnings per common share and common equivalent share	$4.03	$3.86
Earnings per common share—assuming full dilution	$3.73	$3.59

• • • •

III

BUSINESS COMBINATIONS

For the period in which a business combination occurs and is accounted for by the purchase method, APB Opinion No. 16 requires disclosure of a pro forma calculation of the results of operations for the current period as though the companies had combined at the beginning of the period unless the acquisition occurred at or near the beginning of the period. If comparative financial statements are presented, Opinion No. 16 also requires disclosure of pro forma calculation of the results of operations for the immediately preceding period as though the companies had combined at the beginning of that period. The supplemental pro forma information is required as a minimum to show revenue, income before extraordinary items, net income, and earnings per share.

Thirty-one excerpts from financial statements are presented that illustrate the disclosure of pro forma information about business combinations. The examples are classified according to the type of consideration given by the acquiring company.

CASH

A. H. ROBINS COMPANY, INCORPORATED
Notes to Financial Statements

Acquisition

On September 30, 1975 the Company purchased for $13,176,000, 80% of the capital stock of American Drug Corporation, a Panamanian company operating through a branch in Japan. After initial payments, the balance of $9,942,000, recorded as an account payable at December 31, 1975, was paid January 6, 1976. The Company is committed to purchase the remaining 20% of stock over a period beginning January 6, 1976 and ending January 6, 1978. The acquisition has been accounted for as a purchase and, accordingly, operations are included in the accompanying financial statements from October 1, 1975.

Pro forma consolidated sales and other income for 1975 would have been approximately $254,000,000 (1974—$224,000,000) if American Drug Corporation had been acquired on January 1, 1974. The effect on consolidated net earnings would not be material.

AMBRACE CORPORATION

Notes to Financial Statements

Note B—Acquisition and Divestments

During October, 1975, the Company purchased for cash substantially all of the outstanding common stock of Anchor Coupling Co. Inc. for approximately $21,000,000, including expenses. The transaction has been accounted for by the purchase method and the financial statements include the results of operations of the acquired business from the date of acquisition. Consideration paid has been allocated to the assets of the acquired business based on the estimated fair value of the net assets acquired. Had this acquisition been consummated January 1, 1974, the Company's sales and earnings from continuing operations, on an unaudited pro forma basis, would have been as follows:

	1975	1974
Net sales	$243,305,000	$299,425,000
Earnings from continuing operations	7,568,000	10,968,000
Earnings from continuing operations per share of Common Stock:		
Primary	$2.44	$3.84
Fully diluted	2.06	2.91

● ● ● ●

ANGLO COMPANY LIMITED

Notes to Financial Statements

Note 5—Investment in Nabors Drilling Limited

On January 25, 1974 the Company acquired a majority interest in Nabors Drilling Limited, an independent Canadian oil well drilling contractor, from existing shareholders for an aggregate acquisition cost of $3,235,000 in cash. Under the terms of the agreement, additional amounts ($113,000—1974 and $92,000—1975), were paid to one of the sellers, C. A. Nabors, President of Nabors, since Nabors achieved certain earnings for the years ended April 30, 1974 and 1975. On February 1, 1975, Nabors' outstanding 9% Subordinated Convertible Debentures in the amount of $1,000,000 (Canadian $) were converted into 33,000 shares of Nabors. In February 1975, the Company purchased from unaffiliated shareholders 33,000 shares of Nabors for $660,000 to maintain its majority ownership position. The Company did not exercise its option to purchase from C. A. Nabors up to an additional 33,000 shares of Nabors at a price not exceeding $20 per share in the event the Debentures were converted. C. A. Nabors has the option, expiring January 31, 1977, to sell up to 33,000 shares of Nabors to the Company at a price not exceeding $16 per share.

This acquisition has been accounted for by the purchase method. The excess of the acquisition cost over the equity in net assets acquired of $1,159,000 has been allocated to investments, property and equipment. Of that amount, $1,081,000 has been allocated to equipment and is being depreciated in accordance with Nabors' depreciation policy for such assets.

See Note 12 for the pro forma summary of the consolidated results of operations of the Company for the years ended September 30, 1975 and 1974.

Note 12—Pro Forma Financial Information

The following is a pro forma summary of the consolidated results of operations of the Company for the years ended September 30, 1975 and 1974, assuming the acquisitions of MPI, Nabors and Printex had taken place as of October 1, 1973:

	For the years ended September 30,	
	1975	1974
	(Unaudited)	(Unaudited)
Revenue	$48,359,000	$38,986,000
Net income for the year	$ 1,844,000	$ 1,539,000
Per share net income:		
Class "A" and equivalent shares:		
Primary	$.34	$.30
Fully diluted	$.33	$.29
Class "B" shares:		
Primary	$.0071	$.0062
Fully diluted	$.0068	$.0060

COLT INDUSTRIES INC

Notes to Financial Statements

2. Acquisition of Garlock Inc

During December, 1975, 92 percent of the voting common stock of Garlock Inc was acquired in a cash tender at $35 per common share. The transaction has been accounted for as a purchase and accordingly the assets and liabilities of Garlock Inc as of December 31, 1975 have been included in the accompanying consolidated balance sheet. The results of operations of Garlock Inc will be incorporated in the consolidated operating results of Colt Industries Inc beginning January 1, 1976. Garlock is primarily a manufacturer of gaskets, seals, and other devices to control or prevent the leakage of fluids. The purchase price, $87,400,000, exceeded the fair value of net assets acquired by approximately $15,408,000. This excess is being amortized on the straight-line method over a 40-year period.

On January 28, 1976, Garlock Inc was merged into its parent company, a wholly owned subsidiary of Colt Industries Inc. Under terms of the merger, Garlock shareholders would receive cash payment of $35 for each outstanding share of Garlock common stock held at the time of the merger. Garlock shareholders are being informed of the completion of the merger and of the procedure for surrendering their stock certificates and receiving the $35 per share cash payment.

The consolidated results of operations on a pro forma basis as though Garlock Inc had been acquired at the beginning of fiscal 1974 are as follows:

	1975	1974
Net sales	$1,181,847,000	$1,294,676,000
Net earnings	57,500,000	80,200,000
Earnings per common share	7.84	11.36

INDIANA GAS COMPANY, INC

Notes to Financial Statements

2. Purchase of Common Stock of Central Indiana Gas Company Inc.

On December 31, 1973, the Company purchased from American Natural Gas Company all of the outstanding stock of Central for $20,500,000 in cash. The purchase price was financed with unsecured short-term bank borrowings.

The short-term bank borrowings were paid in February, 1975 from part of the proceeds received from the sale of 150,000 shares of 10% cumulative preferred stock and $20,000,000 of 9% first mortgage bonds.

The acquisition has been treated as a purchase for accounting purposes. Consequently, earnings of Central are not included in income for periods prior to December 31, 1973. The cost in excess of underlying book value at date of acquisition has been shown as a separate component of utility plant since no specific recognition of this amount is given in rate determinations. Other assets and liabilities acquired have been included in consolidated statements at book value as recorded in the accounts as required for regulatory purposes: there was no significant difference between the recorded amounts and the present value of such amounts at the purchase date.

If the purchase had occurred as of October 1, 1973, the pro forma results would have been as follows:

	Year Ended September 30 1974
Operating revenues	$99,442,544
Net income	$ 4,219,729
Earnings per share of common stock	$2.27

LENOX, INCORPORATED

Notes to Financial Statements

Note 2—Acquisition and Divestiture:

The Company acquired a majority interest in John Roberts, Incorporated in December 1974, and by January of 1975, when it assumed management control, the Company had purchased more than 87% of the outstanding common stock of Roberts. In July of 1975, the Company consummated 100% ownership of Roberts through the merger of a wholly-owned subsidiary into Roberts, pursuant to which all the former shareholders of Roberts received the same cash price per share. This acquisition was accounted for by the purchase method, at a total cost of $3,617,000 which includes all direct costs associated therewith.

The following tabulation presents the unaudited pro forma results of combined continuing operations of the Company and Roberts for the year ended December 31, 1974.

Sales	$119,460,000
Net income	6,627,000
Net income per share	$1.75

• • • •

THE MARLEY COMPANY
Notes to Financial Statements

3. Acquisitions:

Effective in February, 1975, the Company acquired the remaining capital stock of General Filter Company in a cash transaction. Effective October 4, 1975, the Company acquired certain net assets of The Singer Company Water Resources Division in another cash transaction. Operations of these companies are included in the accompanying consolidated statement of income since the dates of acquisition, including sales and net income relating to the most recent acquisition amounting to $4,414,057 and $266,694, after charges for DISC commissions. The acquisition of the net assets from The Singer Company Water Resources Division was financed with borrowings under the revolving credit agreement discussed in Note 2.

If each of these acquisitions had been made as of November 1, 1973, pro forma sales and net income would have been (based in part on unaudited financial statements) approximately $216,874,000 and $10,061,800 in 1975, and $163,767,000 and $6,411,900 in 1974, respectively. The pro forma amounts give effect to appropriate adjustments for the fair value of the assets acquired, interest expense based on the assumption that actual borrowings would have remained outstanding since November 1, 1973, at an effective interest rate of 10.28% in 1975 and 12.85% in 1974, and the elimination of intercompany transactions. Earnings per common share would have been $4.04 in 1975 and $2.58 in 1974.

• • • •

THE PROVIDENCE GAS COMPANY
Notes to Financial Statements

(3) Acquisition of The Newport Gas Light Company

On December 31, 1974, the Company purchased all of the assets of The Newport Gas Light Company (Newport), a public utility corporation with gas distribution facilities in Newport, Middletown and Portsmouth, Rhode Island. The cost of this acquisition was $1,345,087 in cash, plus assumption by the Company of substantially all of Newport's liabilities approximating $1,600,000. This acquisition was accounted for as a purchase. Under this method of accounting, all assets and liabilities are recorded at their fair value as of the date of acquisition. However, in accordance with the Uniform System of Accounts as prescribed by the Rhode Island Public Utility Commission, utility plant acquired from Newport was stated at its original cost of construction.

The amount by which original cost, less accumulated depreciation, exceeded the cost to the Company was recorded in a "Utility Plant Acquisition Adjustment" account. The utility plant acquisition adjustment is being amortized over 25 years, the estimated remaining life of the assets acquired.

Actual revenues of Newport included in the Consolidated Statement of Operations for the year ended December 31, 1975, were $2,716,000. Newport is operated as a division of the Company (not a separate subsidiary) and correspondingly its contribution to net income since the date of acquisition is not determinable.

Revenues, net income and earnings per share for 1974 combined on the basis of the reported results of Newport and the Company after adjustments for the amortization of the acquisition adjustment, interest and Federal income taxes would be as follows:

Revenues	$39,634,000
Net income	$717,000
Earnings per share	$.58

THE SIGNAL COMPANIES, INC.
Notes to Financial Statements

3. Acquisition:

In 1975, the Company acquired 50.5% of the common stock of UOP for $122,700,000 cash including related expenses. The acquisition was accounted for as a purchase and the accounts of UOP are included in the consolidated financial statements from the effective date of acquisition, May 1, 1975.

As described in Note 2, UOP has written off unsecured receivables and provided a reserve against guaranteed obligations, both of which arose in connection with the construction of a refinery at Come-By-Chance, Newfoundland. In recording the acquisition of UOP, no value has been assigned by the Company to the unsecured receivables and a reserve has been provided for the guaranteed obligations: accordingly, the write-off and reserve provided by UOP is not included in the Company's 1975 consolidated statement of income except to the extent of amortization of the excess of purchase price over the book value of net assets acquired. Because the ultimate resolution of the suit against UOP described in Note 2 is uncertain at this time, no provision has been made for this matter in recording the acquisition. In the event any provision for loss is required as a result of this suit, the Company's share (50.5%) of such provision will be treated as an adjustment to the allocation of the purchase price and will be amortized over a period of approximately 15 years.

Consolidated results of operations on a pro forma basis as though UOP had been purchased January 1, 1974 follows:

	Year Ended December 31, 1975	1974
	(Dollars in thousands, except per share amounts)	
Sales and royalties	$2,334,244	$2,426,007
Income from continuing operations	$41,049	$69,544
Income (loss) from discontinued operations	(1,772)	111,772
Extraordinary income	1,465	1,465
Net Income	$40,742	$182,781
Earnings per share:		
Income from continuing operations	$1.88	$3.03
Income (loss) from discontinued operations	(.08)	4.86
Extraordinary income	.07	.06
Net income	$ 1.87	$ 7.95

SOS CONSOLIDATED INC.

Notes to Financial Statements

Note 2—Acquired Companies

As of November 1, 1974, the Company acquired Feterl Mfg. Co., a manufacturer of grain augers and other farm equipment. As of April 1, 1975, the Company acquired Anilam Electronics Corporation, a manufacturer of linear digital position systems for both production equipment and the machine tool industry. The acquisitions were accounted for using the purchase method of accounting and the operating results of the acquired companies have been included in the accompanying financial statements from their respective dates of acquisition.

The cost of these acquisitions consisted of payments of $2,977,748 through August 31, 1975, and maximum future contingent payments of $5,065,131 based upon future earnings. The excess of total estimated cost over net assets acquired in these transactions is being amortized over 40 years.

The pro forma results of operations, if the operations of the acquired companies had been included from September 1, 1973, would have been as follows:

	Year Ended August 31 1975	1974
Net sales	$89,920,000	$88,465,000
Net earnings	4,914,000	4,865,000
Earnings per share	$1.62	$1.57

CASH AND COMMON STOCK

NEW ENGLAND MERCHANTS COMPANY, INC.

Notes to Financial Statements

17. Acquisition

On May 9, 1975, the Company acquired the outstanding shares of The Fall River National Bank for $1,543,830 in cash and 153,078 shares of common stock of the Company. The acquisition was accounted for as a purchase and the excess of cost over the value of net assets acquired, approximately $428,000, has been recorded as Goodwill and is being amortized over a 40 year period using the straight line method. The following pro forma summary presents the consolidated results of operations of the Company as if the acquisition was effective January 1, 1974. The pro forma amounts (in thousands except per share items) give effect to all appropriate adjustments related to the acquisition.

	Year Ended December 31	
	1975	1974
Operating Income	$116,961	$129,859
Operating Expense	105,687	118,900
Income Before Income Taxes and Net Securities Gains (Losses)	11,274	10,959
Applicable Income Taxes	4,384	4,314
Income Before Net Securities Gains (Losses)	6,890	6,645
Net Securities Gains (Losses) Less Taxes	196	(230)
Net Income	$7,086	$6,415
Earnings Per Share:		
Income Before Net Securities Gains (Losses)	$2.64	$2.55
Net Income	$2.72	$2.46
Earnings Per Share Assuming Full Dilution:		
Income Before Net Securities Gains (Losses)	$2.43	$2.34
Net Income	$2.50	$2.26

REPUBLIC NEW YORK CORPORATION

Notes to Financial Statements

2. Acquisitions

• • • •

Effective for accounting purposes as of June 30, 1974, the Corporation acquired all the common stock of Kings Lafayette Corporation in exchange for 860,688 shares of the common stock of the Corporation, plus $604,146 in cash to dissenting shareholders. The shares of the Corporation exchanged had a fair value, net of issue costs, of $17,608,127. The acquisition was accounted for as a purchase. Accordingly, certain of Kings Lafayette Corporation's assets were recorded at estimated fair values, and the results of its operations are included in the consolidated financial statements from the date of acquisition.

The estimated fair value of Kings Lafayette Corporation's net assets approximated the fair value of the shares issued plus the cash paid. Accordingly, there was no resultant goodwill.

The following is a pro forma summary of consolidated operations for 1974, assuming the acquisition of Kings Lafayette Corporation had been effected on January 1, 1974, compared with actual results for 1975:

	1975	Pro forma 1974
Total operating income	$114,483,139	$104,030,936
Income before securities gains	15,864,030	15,222,435
Net income	16,088,093	15,310,969
Per share based on average shares outstanding of 3,121,730 and 3,137,576 respectively:		
Primary:		
Income before securities gains	$5.08	$4.85
Net income	5.15	4.88
Fully diluted:		
Income before securities gains	4.65	4.43
Net income	4.72	4.46

WALLACE BUSINESS FORMS, INC.

Notes to Financial Statements

3 Acquisitions:

In January, 1975, the Company acquired all of the outstanding capital stock and the manufacturing facilities of Continental Carbon Paper Manufacturing Company of Houston, Texas. Continental manufactures and sells one-time carbon paper and one-time carbon ink. The purchase price consisted of cash and assumption of debt totaling $350,000 and the issuance of 78,187 shares of common stock having a fair value of approximately $743,000.

This acquisition was accounted for as a purchase and, accordingly, the results of operations of Continental are included in the consolidated statement of income from January 1, 1975. Pro-forma consolidated net sales, net income and net income per share, assuming the acquisition of Continental had been consummated as of August 1, 1973, would have been as follows:

	1975	1974
Net Sales	$67,338,000	$59,587,000
Net Income	4,262,000	3,936,000
Net Income per Share	$2.19	$2.08

• • • •

ALLEGHENY LUDLUM INDUSTRIES, INC.
Notes to Financial Statements

(2) Acquisitions:

On February 28, 1975 the Corporation acquired all of the outstanding common stock of Standard-Thomson Corporation (Standard-Thomson) for cash and notes aggregating $15,483,000. Standard-Thomson is engaged in the manufacture and sale of thermo-mechanical and electro-mechanical controls and control components. The total purchase price was allocated to the net tangible assets acquired based on their estimated fair values, and included no goodwill. Since this acquisition was accounted for as a purchase, the results of operations of Standard-Thomson have been included in the consolidated statements of earnings from the date of acquisition.

The following table summarizes, on an unaudited pro forma basis, the consolidated results of the Corporation as though Standard-Thomson had been acquired on January 1, 1974:

	Year ended December 31, 1975	1974
	(In thousands, except earnings per share)	
Sales	$794,995	$1,006,952
Net earnings	29,874	46,616
Earnings per share of common stock:		
Primary	4.98	8.47
Fully diluted	4.32	6.75

••••

ALLIED PRODUCTS CORPORATION
Notes to Financial Statements

(2) Acquisitions and Dispositions:

Acquisitions

In 1975, the Company acquired five businesses for its Bush Hog Agricultural Equipment Group for $1,017,000 in cash and $2,324,000 in notes. In 1974, the Company acquired two businesses for this group for $1,090,000 in cash and $600,000 in notes. These acquisitions, when taken individually or in the aggregate, are not material to the consolidated financial statements.

Had these acquisitions been consummated January 1, 1974, the Company's pro forma summary operating results, as adjusted for the effect of fair values used in the purchase method of accounting, would have been as follows:

	Unaudited 1975	1974
Net sales	$240,786,000	$334,539,000
Net income (loss)	$(87,000)	$7,036,000
Net income (loss) per common share	$(.07)	$3.86

In addition to the acquisitions consummated, in early 1975 the Company acquired, for $150,000 in cash and $425,000 in notes, certain assets of an industrial gear manufacturer for use in its Bush Hog Agricultural Equipment Group. In August, 1975, FabricsAmerica Corporation, a subsidiary of the Company, purchased certain assets (principally inventories, plant and equipment) of the fabric finishing operation of Kerr Industries, Inc. FabricsAmerica paid $1,291,000 in cash for these assets, which have been used in its finishing operations.

••••

FLOWERS INDUSTRIES, INC.
Notes to Financial Statements

Note 2—Acquisitions:

Effective July 16, 1974, the Company acquired the outstanding capital stock of Specialty Foods Corporation, a manufacturer of canned food products, for $800,000 consisting of $350,000 cash and $450,000 of 8% notes payable in twelve equal quarterly installments commencing January 1, 1975. This business combination has been accounted for as a purchase and the results of operations of Specialty Foods are included in the consolidated statement of income from the date of acquisition. If this acquisition had been consummated as of October 4, 1973, consolidated sales, net income and primary net income per share would have been $147,479,000, $4,969,000 and $2.20, respectively, for the year ended October 2, 1974.

••••

GEORGE BANTA COMPANY, INC.
Notes to Financial Statements

(3) Acquisitions

On January 31, 1975, the Company purchased the assets and assumed the liabilities of KCS Industries Inc. (KCS) for $350,000 and issuance of a $950,000 note payable with interest at 8% over four years. The transaction was treated as a purchase for accounting purposes and accordingly the operating results of KCS were included in consolidated earnings from the date of acquisition. The operating results for the month of January, 1975 were not significant. On an unaudited pro forma basis, if KCS had been acquired as of December 30, 1973, the net consolidated sales, net earnings, and primary earnings per share of the Company for 1974 would have been increased by $4,612,000, $173,000, and $.10 per share, respectively.

KANEB SERVICES, INC
Notes to Financial Statements

(3) Acquisitions

Effective March 1, 1971, the Company acquired all of the outstanding common stock of The Rein Company, a printing firm, in exchange for $1,200,000 of 8½% subordinated debentures, $1,500,000 of 5½% subordinated convertible debentures and $25,000 in cash. Effective May 1, 1971, the Company acquired all of the outstanding common stock of Stansbury & Company, Inc., a coal mining company, in exchange for $1,000,000 of 6½% subordinated debentures, $400,000 of 5½% subordinated convertible debentures and $300,000 in cash. Effective March 1, 1972, the Company acquired substantially all of the assets of Pipe Line Technologists, Inc., an engineering consulting firm, in exchange for $2,925,000 cash and $7,200,000 of the Company's 8¼% subordinated debentures. Effective July 1, 1973, the Company acquired all of the outstanding capital stock of Interstate Coal Company, Inc., Mountain Clay, Inc. and Leeco, Inc. of Manchester, Kentucky and certain leaseholds and real property owned by the shareholders of these corporations in exchange for $725,000 cash and $1,775,000 of the Company's 7% subordinated debentures. These acquisitions were accounted for by the purchase method. There were no acquisitions during 1974.

Effective August 1, 1975, the Company acquired all of the outstanding common stock of Ikerd-Bandy Co., Inc., producer of steam grade bituminous coal in Kentucky in exchange for $7,780,000 in cash. In connection with this acquisition, the Company issued to a bank a $6,500,000 unsecured promissory note. An additional $1,420,000 (included in other deferred charges) was paid as advance royalties on coal leases owned by the former Ikerd-Bandy shareholders. Effective September 30, 1975, the Company acquired all of the outstanding common stock of Randall Fuel Company, Inc., a coal marketing company, of Atlanta, Georgia for $2,135,680 of 8% subordinated debentures and $872,320 in cash. These acquisitions were also accounted for by the purchase method.

The following are the major categories of assets acquired and liabilities assumed from the companies purchased in 1975:

Working capital	$ 5,502,157
Property, plant and equipment, net	2,172,003
Other assets	74,418
	7,748,578
Excess of costs over equity in net assets	3,039,422
Total	$10,788,000

The following pro forma statements of income present the consolidated income of the Company and its subsidiaries for 1975 and 1974 assuming the 1975 acquisitions had occurred at January 1, 1974:

Pro Forma Statements of Income (Unaudited)	1975	1974
Total revenues excluding dividends and other income	$124,232,930	159,853,562
Net income	$ 13,932,592	12,129,041
Earnings per common share and common equivalent share	$3.64	3.32
Earnings per common share—assuming full dilution	$3.52	3.17

If the revenues and net income of the companies acquired in 1971, 1972 and 1973 were included in consolidated pro forma statements of income for those years, with the assumption that the acquisitions had occurred at the beginning of each of those years, the effects on consolidated revenues and net income would not be significant.

MICROWAVE ASSOCIATES, INC

Notes to Financial Statements

Note 2—Changes in Business:

• • • •

During October and November 1973 the company acquired for cash and notes aggregating $1,165,000 certain assets of two businesses in the microwave component and transistor fields. On January 3, 1974, the company acquired all the outstanding common stock of Currier-Smith Corporation, a manufacturer of security systems, for $150,000 plus a percentage of net sales of certain products through December 1978. These acquisitions were accounted for by the purchase method and, accordingly, the results of operations of the acquired businesses are included in the consolidated statement of income from the respective dates of acquisition. If these purchases had been consummated as of September 30, 1973 the pro forma combined unaudited results of operations for the year ended September 28, 1974 would have been as follows: net sales $50,177,000; net income $2,464,000; net income per share $1.76.

MICKELBERRY CORPORATION

Notes to Financial Statements

2. Acquisitions

• • • •

Dimondstein Book Company, Inc.

The Dimondstein Book Company, Inc., a distributor of books to libraries and book stores, was acquired as of February 28, 1975 and accounted for as a purchase. The purchase price totaled $1,050,000 (including $250,000 in cash, $737,500 in 8% notes and $62,500 of life insurance cash surrender value) plus fees. The results of operations of the acquired company are included in the financial statements from March 1, 1975.

The unaudited pro forma combined results of operations as if Dimondstein had been acquired at the beginning of 1974 are as follows:

	1975	1974
Revenues	$45,666,600	$42,023,200
Income before extraordinary item	$ 1,365,300	$ 1,087,000
Extraordinary item	—	210,000
Net income	$ 1,365,300	$ 1,297,000
Per average common share (Notes 1 and 6):		
Income before extraordinary item	$1.53	$1.32
Extraordinary item	—	.25
Net income	$1.53	$1.57

ZAPATA CORPORATION

Notes to Financial Statements

Acquisitions

During 1975, Zapata acquired two coal mining operations for an aggregate of $30,000,000 cash and notes. During 1974, Zapata acquired an offshore drilling company for an aggregate of $20,100,000 cash and assumption of indebtedness, and two tuna fishing companies for an aggregate of $5,300,000 cash, notes and assumption of indebtedness; and increased its ownership in a mining subsidiary for $10,695,000 cash.

These acquisitions have been accounted for as purchases and accordingly the results of operations have been included in the statement of income from the respective dates of acquisition. The following information reflects the pro forma results of operations as though the above acquisitions had been made as of October 1, 1973.

	1975	1974
	(in thousands, except income per share)	
Revenues	$357,925	$342,709
Net income	31,367	30,218
Income per common and common equivalent share	4.73	3.56
Income per common share assuming full dilution	3.50	2.83

CASH AND PREFERRED STOCK

GTI CORPORATION
Notes to Financial Statements
Note 3—Acquisition:

Effective April 1, 1974, the Company acquired the outstanding stock of Tensor Electronics, Inc. in exchange for cash and 11,560 shares of preference stock at a total cost of $290,800. The acquisition has been accounted for as a purchase. The excess of cost over net assets acquired at date of acquisition, $478,155, has been allocated to patents and is being amortized over ten years. The results of operations of the subsidiary, losses of $626,003 and $660,553 for the periods ending December 31, 1974 and 1975, have been included in the consolidated financial statements from date of acquisition. Had the subsidiary been acquired effective January 1, 1974, the unaudited consolidated results of operations on a pro-forma basis would have been as follows:

	1974
Net sales	$22,977,000
Income from continuing operations	$570,000
Net income	$348,000
Net income per share of common stock	$.16

COMMON AND PREFERRED STOCK

BRUNSWICK CORPORATION
Notes to Financial Statements
Note 1—Changes in Operations

The Company acquired all of the outstanding capital stock of Ozite Corporation, a manufacturer of floor coverings, on August 16, 1974, in exchange for 1,322,000 shares of common stock and 7,959 shares of $6.00 preferred stock (subsequently redeemed at $100 per share), representing a total consideration of approximately $14,000,000. This acquisition has been accounted for as a purchase, and, accordingly, the results of operations of Ozite have been included in the consolidated financial statements from the date of acquisition.

In connection with the acquisition, the Company reviewed the operations and decided to consolidate activities performed in several small plants and to discontinue the manufacture of certain secondary product lines. As required under the purchase method of accounting, the total purchase price has been allocated to the net assets acquired based upon their fair market values to the Company as of the date of acquisition. This resulted in the write-down of unneeded plants, equipment and inventories, to be disposed of in future periods, to estimated realizable value and in the write-up to appraised value of certain favorable leases on continuing manufacturing facilities.

The pro forma combined net sales and services (unaudited) of the Company and Ozite for the year ended December 31, 1974, reflecting the acquisition as though it had taken place January 1, 1974, were $853,993,000. The pro forma combined net earnings (unaudited) of the two companies were $38,161,000 ($2.04 per common share) in 1974. This does not give effect to changes in the amounts of depreciation, amortization, and interest expense from liabilities assumed, which result from the adjustments recorded to the Ozite asset and liability accounts in connection with the acquisition, since the net effect of such changes would not be material to the pro forma combined results of operations.

• • • •

COMMON STOCK

GENERAL SIGNAL CORPORATION
Notes to Financial Statements

(2) Acquisition.

The company acquired, as of July 1, 1975, the common stock of The Ceilcote Company, a leading supplier of corrosion control materials and specialty pollution control equipment, for 172,042 shares of the company's common stock. The acquisition was accounted for as a purchase.

The following supplemental information summarizes the combined results of The Ceilcote Company and General Signal Corporation on a pro forma basis as though the purchased company had been combined as of January 1, 1974:

	1975	1974
Net sales	$557,487	$493,496
Net income	25,250	21,621
Earnings per share	$3.24	$2.78

GREAT NORTHERN NEKOOSA CORPORATION

Notes to Financial Statements

(2) Acquisitions

On December 31, 1975, the company acquired all the outstanding common stock of Pak-Well Corporation (Pak-Well) in exchange for 548,446 shares of the company's common stock. Pak-Well is principally engaged in the manufacture and sale of envelopes, stationery, school supplies and packaging materials. The aggregate cost of the acquisition was $20,841,000 based on an assigned fair value of $38.00 a share and was accounted for using the purchase method. The excess purchase price over the adjusted book value was not significant. Pak-Well was acquired on the last day of the fiscal year and, accordingly, results of operations have not been included in the Consolidated Statements of Income.

The following table summarizes, on an unaudited pro forma basis, the results of operations of the company combined with Pak-Well as though the acquisition had occurred January 1, 1974.

	Year ended December 31	
	1975	1974
Net sales	$713,436,000	$742,662,000
Net income	$ 44,210,000	$ 62,494,000
Earnings per share:		
Primary	$5.97	$8.56
Fully diluted	$5.74	$8.19

The adjusted book values of Pak-Well's net assets acquired were:

Cash and receivables	$ 9,480,000
Inventories	12,343,000
Other current assets	468,000
	$22,291,000
Property, plant and equipment	8,548,000
Other assets	1,055,000
	$31,894,000
Less: Liabilities (including $5,353,000 current)	11,053,000
Net assets acquired	$20,841,000

Three other companies were acquired during 1975 and accounted for as purchases: one for 48,600 shares of common stock and two for an aggregate of $1,309,000. The operations of these companies at the time of acquisition were not material, and therefore are not included in the pro forma table on page 27.

In 1974, three companies were acquired and accounted for as purchases: one for 35,931 shares of treasury common stock and two for an aggregate of $13,942,000. The operations of these companies in 1974 were not material, and therefore are not included in the pro forma table on page 27.

RIVIANA FOODS INC

Notes to Financial Statements

Acquisitions and Dispositions

Effective February 21, 1975, the Company acquired the remaining outstanding common stock of certain foreign affiliates in exchange for 546,250 shares of the Company's common stock. The acquisitions were accounted for as purchase transactions, and the results of operations of the companies, represented by the additional interests, have been reflected in the consolidated financial statements from the dates of acquisition. If it were assumed that the operations of the acquired companies had been included in the two years ended August 3, 1975, net sales and net earnings in 1975 would have been $467,093,000 and $11,699,000, respectively, and net sales and net earnings in 1974 would have been $431,124,000 and $12,224,000, respectively. The effect on earnings per common share for the two years, after giving retroactive effect to the issuance of the 546,250 shares of the Company's common stock and the assumed earnings amounts, would have been a decrease of $.13 per share in 1975 and an increase of $.22 per share in 1974. The Company's additional interest in assets acquired consist primarily of property, plant and equipment of $3,834,000.

Certain of the selling shareholders have the option, through 1977, to reacquire their former interests in the acquired companies in return for the 109,250 shares of the Company's common stock which they received.

• • • •

ROCKWELL INTERNATIONAL CORPORATION

Notes to Financial Statements

19. Acquisitions

During 1974 the Company had two major acquisitions, Collins Radio Company (Collins) and Admiral Corporation (Admiral). Collins was acquired at an aggregate cost of $115.7 million (including the cost of the Company's investment in 1971 in preferred stock and warrants to purchase common stock). The excess of the purchase price over the fair value of Collins' net assets amounted to $14.5 million and is being amortized over forty years. Admiral was acquired at an aggregate cost of $79.9 million based on exchanging a maximum of 2,931,595 shares of the Company's common stock held in treasury (with an assigned fair value of $27.00 a share) for all the outstanding common stock of Admiral. The excess of the fair value of Admiral's net assets over the cost thereof amounted to $21.7 million. This excess has been allocated to noncurrent assets and is being amortized over the remaining lives of such assets, a period averaging approximately 10 years. Both acquisitions were accounted for as purchases. The accounts of Collins have been included in the consolidated financial statements from the beginning of the 1974 fiscal year and the accounts of Admiral have been included since April 1, 1974.

If Admiral had been combined with the Company for the full 1974 fiscal year, on an unaudited pro forma basis, consolidated sales would have been $4,664.0 million and net income would have been $128.3 million ($3.87 per share on a primary basis). The above pro forma amounts give effect to appropriate purchase accounting adjustments and the issuance of shares of common stock.

• • • •

SECURITY PACIFIC CORPORATION

Notes to Financial Statements

4) Acquisitions and Investments:

• • • •

On May 15, 1974, the Corporation acquired Security Pacific Mortgage Corporation (formerly Midwestern Financial Corporation), a mortgage banking company, for approximately 529,800 shares of common stock. The acquisition was treated as a purchase for financial statement purposes and accordingly, the results of Midwestern's operations since May 15, 1974, have been included in the Consolidated Statement of Earnings. The difference between the market value of stock issued plus acquisition costs and the fair value of assets acquired was apportioned between the value of the servicing portfolio acquired ($4.7 million to be amortized generally over 10 years) and goodwill ($4.1 million to be amortized over 40 years). On a pro forma basis, assuming acquisition at the beginning of the year, net income for the Corporation would have been $55,652,000 ($2.70 per share) in 1974.

• • • •

COMMON STOCK AND NOTES

THE TAPPAN COMPANY

Notes to Financial Statements

Acquisition of the F. H. Lawson Company

Effective May 31, 1974, the Company acquired all of the Common Stock of The F. H. Lawson Company (Lawson) in exchange for subordinated notes and treasury shares having an aggregate fair value of $4,252,000 at the acquisition date.

This acquisition was accounted for as a purchase, and the Company's Statement of Earnings includes the results of operations of Lawson subsequent to May 31, 1974. Assuming the acquisition was as of January 1, 1974, and the notes and Common Shares issued by the Company were outstanding as of January 1, 1974, pro forma net sales and net loss for 1974 would have been $238,817,000 and $7,507,000 ($2.46 per share), respectively.

PREFERRED STOCK

GULF & WESTERN INDUSTRIES, INC.

Notes to Financial Statements

Note B—Acquisition of Businesses

During the year ended July 31, 1975, the Company acquired three publicly-held companies in transactions accounted for as purchases. In August 1974, Elco Corporation, a manufacturer of electronic and electrical connector products, was merged with a subsidiary of the Company. Total consideration paid for all shares of Elco Corporation, including those held prior to the merger, was $12,400,000 in cash. In June 1975, the Company acquired Simon & Schuster, Inc., a publisher of hard cover and paperback books, in exchange for 690,500 shares of the Company's common stock, recorded at $15 per share. In June 1975, the Company acquired a corporation whose principal asset consisted of the ownership of approximately 37% of the common stock of Kayser-Roth Corporation, a diversified manufacturer of apparel, shoes and specialty textile products, and which combined with the Company's previous holdings (the investment in which was accounted for on the equity basis) resulted in the ownership of 70% of Kayser-Roth Corporation's common stock. Consideration given to acquire this corporation was 774,984 shares of the Company's newly created $2.50 Series D convertible preferred stock, recorded at $32 per share, and 5,929 shares of $5.75 series non-convertible preferred stock, recorded at $67.25 per share. Under certain circumstances related to the sale of a division of this corporation, the former shareholders may receive up to an additional 50,000 share of $2.50 Series D convertible preferred stock. The consideration paid has been allocated to the assets of the acquired businesses based on the estimated fair values of the net assets acquired and the financial statements include these acquired businesses from dates of acquisition. In the case of Kayser-Roth Corporation, pending the results of a study of the fair values of such company's net assets, the excess (approximately $60,000,000) of the carrying value of the net assets acquired over the purchase price has been applied against the non-current assets, with the balance (approximately $5,200,000) included in intangibles as negative goodwill in the balance sheet at July 31, 1975.

Had these businesses been included on a pro forma basis, as if they had been acquired at the beginning of the 1974 fiscal year, the results of operations (including adjustments related to the allocation of the Company's purchase price) would have been as follows:

	Pro Forma	
	1975	1974
Net sales and other operating revenues	$3,203,000,000	$2,958,000,000
Net earnings	143,800,000	113,300,000
Net earnings per share:		
Primary	4.47	3.22
Fully diluted	3.63	2.84

• • • •

PREFERRED STOCK AND WARRANTS

SOUTHEAST BANKING CORPORATION
Notes to Financial Statements
Note 2: Acquisitions

• • • •

Effective December 31, 1975, Southeast acquired all the common stock of Palmer Bank Corporation ("Palmer") for 464,729 shares of Southeast Series A Limited Dividend Preferred Stock and 337,984 Warrants to purchase Southeast Common Stock with values of $2,556,000 and $338,000, respectively, and the assumption of Palmer's net liabilities based on Palmer's recorded liabilities in excess of the present fair values of Palmer's tangible assets. The values assigned to Southeast's Preferred Stock and Warrants are based upon values as of the date the terms of the acquisition were finally agreed upon as estimated by an investment banking firm since there were no shares of Preferred Stock or Warrants outstanding. See Note 9.

The Palmer acquisition has been accounted for as a purchase. Palmer owned eight commercial banks, a mortgage company and two non-banking subsidiaries. An integral part of this transaction was the additional borrowings of $5,000,000 from the FDIC and $5,000,000 under a new Southeast bank credit agreement. See Note 7.

The following unaudited supplemental combined information has been prepared on a pro forma basis as if the acquisition of Palmer had taken place on January 1, 1974 and is not covered by Southeast's independent accountants' opinion. The information includes adjustments to reflect (i) the amortization of certain purchase adjustments which reflect estimated present fair value of assets acquired and liabilities assumed, and certain adjustments estimated by Southeast as of December 31, 1975 for additional potential loan losses and related costs and for additional adjustments of the net carrying values of Palmer's foreclosed real restate; (ii) the interest expense, net of applicable income taxes, on borrowings related to the acquisition (See Note 7); and (iii) the effect of the issuance of 464,729 shares of Southeast Series A Limited Dividend Preferred Stock and 337,984 Warrants to purchase Southeast Common Stock. No recognition has been given to certain potential future tax benefits relating to Palmer's pre-acquisition operations (See Note 8), or to the earnings capacity of the infusion of additional capital. (Dollars in thousands.)

	Year Ended December 31, 1975			
	Southeast	Palmer	Adjustments	Proforma Combined
Interest and other operating revenues	$235,462	$ 19,139	$ 1,839	$ 256,440
Net income	$ 13,045	$(10,860)	$(10,403)	$ (8,218)
Earnings per share:				
Common shares and equivalents	$ 1.21			$ (.73)
Fully diluted	$ 1.20			$ (.61)

	Year Ended December 31, 1974			
	Southeast	Palmer	Adjustments	Proforma Combined
Interest and other operating revenues	$255,068	$ 23,484	$ 1,009	$ 279,561
Net income	$ 18,896	$ (942)	$ 34	$ 17,988
Earnings per share:				
Common shares and equivalents	$ 1.77			$ 1.61
Fully diluted	$ 1.71			$ 1.57

The auditors (who are not Southeast's auditors) who examined Palmer's results of operations for the year ended December 31, 1974 and the six months ended June 30, 1975, included above in Palmer's results of operations for 1974 and 1975, qualified their opinion at June 30, 1975 subject to the possible effects of (i) an uncertainty as to the ultimate realization of certain municipal investment securities; (ii) Palmer not being in compliance with certain restrictive covenants of its loan agreements with unaffiliated commercial banks; and (iii) numerous uncertainties involving economic conditions, litigation relating to certain loans, potential bankruptcy of certain borrowers and the estimates necessary in establishing the allowance for possible loan losses which may affect the ultimate realization of the net carrying amounts of real estate loans and foreclosed real estate included in Palmer's financial statements. A complaint was brought against Palmer in December 1975 by a participating lender alleging the improper handling of certain loans by Palmer and an alleged class action suit brought in December 1975 against certain officers and directors of Palmer and Palmer's then independent accountants for alleged improper actions during the period 1973 through December 18, 1975, which is more fully described in Note 13.

Management of Southeast does not believe that the above pro forma information is indicative of what the results of operations would have been had the acquisition occurred on January 1, 1974.

Southeast's cost of acquiring banks and other companies in excess of the estimated fair values of net tangible assets acquired on the dates of acquisition was $26,364,000 and $8,807,000, at December 31, 1975 and 1974, respectively. Of these amounts, $3,059,000 arises from transactions before November 1, 1970 and is not being amortized.

IV

ACCOUNTING CHANGES

APB Opinion No. 20 requires most changes in accounting principle to be recognized by including in net income of the period of the change the cumulative effect of the change on the amount of retained earnings at the beginning of the period. Income before extraordinary items and net income computed on a pro forma basis are required to be disclosed in total and per share for all periods for which financial statements are presented as if the newly adopted principle had been applied during all periods affected. The pro forma amounts are to include both the direct effects of the change and nondiscretionary adjustments such as profit sharing expense and certain royalties.

Thirty excerpts from financial statements are presented that illustrate the disclosure of the pro forma calculations required under Opinion No. 20. The examples are classified by the nature of the accounting principle that was changed.

CATASTROPHE LOSS TREATMENT

AMERICAN GENERAL INSURANCE COMPANY
Notes to Financial Statements

Note A—Accounting Policies

• • • •

Catastrophe Reserve. Beginning in 1970 and through 1974 the fire and casualty insurance companies made provisions, by charges to income (resulting in a deferred tax benefit), for a reserve for catastrophe losses.

The Financial Accounting Standards Board in 1975 issued an accounting standard which provides that insurance companies are not permitted to provide for catastrophes *until* they occur. Accordingly, beginning in 1975 American General has changed its former accounting policy and ceased providing a reserve for losses from catastrophes. The balance in the catastrophe reserve at the beginning of the year 1975 is reflected net of applicable tax in the results of operations as a cumulative accounting change.

Note E—Deferred Policy Acquisition Costs and Policy Reserves

• • • •

The catastrophe reserve of the consolidated fire and casualty insurance companies totaled $9,755,000 at December 31, 1974. Effective in 1975, American General changed its method of providing for catastrophes (see Note A). The cumulative effect of the accounting change of $5,174,000 was net of taxes of $4,581,000. The effect of the accounting change on 1975 income before cumulative effect of the accounting change was to increase such income by approximately $1,080,000 or $.05 per share. The pro forma amounts assuming the change in accounting had been applied retroactively, follow:

	1975	1974
Net earnings, including realized gains (losses)—000's omitted	$50,881	$42,288
Earnings per Common share—primary	1.94	1.49
Earnings per Common share—fully diluted	1.82	1.48

CITY INVESTING COMPANY

Statement of Consolidated Income

	For the Year Ended December 31 1975	1974
• • • •		
Earnings per common share—assuming full dilution		
Operating income from continuing operations (primary $.97 and $1.50)	$ 1.05	$ 1.37
Net investment gains (losses) (primary $.23 and $(.37))	.14	(.22)
Discontinued operations (primary $(.16) and $(.21))	(.09)	(.13)
Accounting change (primary $.43)	.25	—
Net income (primary $1.47 and $.92)	$ 1.35	$ 1.02
Pro forma amounts assuming retroactive change in accounting for catastrophe reserve		
Operating income from continuing operations	$35,281	$44,980
Net income	$36,657	$32,602
Earnings per share—assuming full dilution		
Operating income from continuing operations (primary $.97 and $1.40)	$ 1.05	$ 1.31
Net income (primary $1.04 and $.82)	$ 1.10	$ .96

Summary of Accounting Policies and Financial Review

Insurance Accounting

• • • •

In 1971, the Company established the practice of deferring a portion of insurance premiums to provide for catastrophe losses which occur on an irregular basis. Provisions for catastrophe losses were $12,000,000 during 1974. Charges to the reserve, which were based on losses classified as catastrophes by the industry, were $16,000,000. As a result of the adoption of this policy, net income was increased by $2,080,000 during 1974. In March 1975, the Financial Accounting Standards Board issued Statement No. 5, which provides that insurance companies may no longer maintain reserves for catastrophes and that the cumulative effect of the change in accounting on retained earnings be included in net income of the period of change. Had the Company continued providing for catastrophe losses, operating income for the year ended December 31, 1975 would have been decreased by $3,054,000.

• • • •

COMMISSION REVENUE RECOGNITION

MOBILE HOME INDUSTRIES, INC.

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

• • • •

Accounting for Credit Sales of Mobile Homes

Credit sales of mobile homes are made under instalment sales contracts payable in equal monthly instalments, in most cases 120 months, but not to exceed 144 months. The Company has agreements with several financial institutions to purchase the instalment sales contracts at the contract amounts exclusive of finance charges. The Company has agreed to repurchase the contracts in the event of customer default. Each contract is endorsed by the Company and in exchange for this endorsement the Company receives an endorsement fee, which is a portion of the finance charge. During fiscal 1975, approximately 75% of the Company's instalment sales contracts were sold to Commercial Credit Corporation (49% in 1974).

Prior to fiscal 1974, endorsement fees were recognized immediately as income at the time the related instalment sales contracts were sold and a provision was made for anticipated refunds of endorsement fees in the event of customer default or prepayment prior to maturity. The provision also provided for costs incurred in the event of customer default. Beginning in fiscal 1974 (as explained in Note 2), endorsement fees are accounted for by using a delayed recognition method whereby the endorsement fee is initially recorded as deferred endorsement fee income. A portion of the fee is reflected in income at the time the sale is recorded: the portion so recognized approximates direct contract acquisition costs incurred and the estimated normal provision for future credit losses. The remainder of the deferred endorsement fee is recognized as income over the term of the instalment sales contract using the "effective-yield" method, which approximates a constant rate of return in relation to the outstanding principal balance of the instalment sales contract. Refunds of endorsement fees upon early termination of instalment sales contracts are charged against deferred endorsement fees to the extent such endorsement fees remain in deferred income; any excess amounts are charged to the reserve for future losses on credit sales.

Upon receipt of notice from a financial institution of a default by a customer, the Company takes possession of the mobile home and makes payments to the financial institution for delinquent contract instalments (such payments are charged to the reserve for future losses on credit sales), and exercises its best efforts to arrange for transfer of the contract obligation to a new customer. In the event a transfer to a new customer cannot be effected within the time permitted under the repurchase agreement, the Company repurchases the contract. The mobile home is recorded in inventory at estimated wholesale value, deferred endorsement fee income is relieved (as described above) and any remaining amount is charged to the reserve for future credit losses. Provisions for future credit losses are based on repossession experience of the Company and are intended to provide for all costs which may be incurred upon transfer or repossession of mobile homes as described above. Such provisions recorded prior to fiscal 1974 were also intended to provide for estimated refunds of endorsement fees related to repossessions and early termination of the instalment sales contract. This portion ($1,500,000) of the reserve for future credit losses at August 31, 1973, was reclassified to deferred endorsement fees in 1974 in connection with the accounting change.

The balance at August 31, 1975, of $11,500,000 in the reserve for future losses on credit sales was determined on the basis of the Company's historical repossession experience adjusted for the effect of forecasted changes in general economic conditions. In the opinion of management, the reserve is adequate to cover anticipated expenses relating to outstanding contracts.

Endorsement fees receivable and the reserve for future losses on credit sales are classified as noncurrent since it is impractical to determine their current portions.

Insurance Commissions

The Company earns commissions from premiums on physical damage and credit life insurance sold in connection with credit sales of mobile homes. Prior to fiscal year 1974, the entire commission was recognized as income at the time of sale. Beginning in 1974 (as explained in Note 2), these commissions, when received, are deferred and systematically amortized to income over the terms of the related policies in proportion to the amounts of insurance in force. A portion of the commission, however, is reflected in income at the time the policy is written; the portion so recognized approximates direct policy acquisition costs.

Note 2—Accounting Changes

During the fourth quarter of fiscal 1974, the Company's method of income recognition for endorsement fees was changed from the immediate recognition method to a delayed recognition method (see Note 1), which is considered preferable because it results in spreading endorsement fee income over the term of the related instalment sales contracts. The new method was applied retroactively to endorsement fees collected in prior years.

Additionally, the method of accounting for insurance commissions was changed from immediate recognition to recognition over the lives of the related policies. The deferral and systematic recognition of commissions is preferable, since it approximates the method of premium income recognition utilized by many insurance companies. This change in accounting method was applied retroactively to commissions received in prior years.

The adjustment of $11,145,000 (after reduction for income tax effect), is the cumulative effect of the new accounting methods on prior years. It is reflected in the results of operations for 1974 as a nonrecurring special charge and is summarized below (amounts in the thousands—except per share):

			Net Adjustment	
	Gross Amount	Less— Income Tax Effect	Amount	Per Share
Cumulative amounts at September 1, 1973, for:				
Deferred endorsement fees	$13,970	$ 6,985	$ 6,985	$1.59
Deferred insurance commissions	8,320	4,160	4,160	.94
	$22,290	$11,145	$11,145	$2.53

Had the Company continued the immediate recognition methods for endorsement fees and insurance commissions during the year ended August 31, 1974, the net loss for 1974 before the cumulative effect of the changes in accounting principles would have been decreased by $272,000 ($.06 per share).

• • • •

NORTH AMERICAN MORTGAGE INVESTORS

Statements of Income

	Years ended December 31, 1975	1974
• • • •		
Per share data:		
Income before extraordinary income and cumulative effect of change in accounting principle	.23	1.83
Extraordinary income-gain from retirement of debentures	.12	—
Cumulative effect on prior years of changing to a policy of deferring commitment fees	(.30)	—
Net income per share	$ .05	$ 1.83
Pro forma amounts assuming the change to a policy of deferring commitment fees is applied retroactively:		
Income before extraordinary income	$1,023	$8,681
Income per share before extraordinary income	$ .23	$ 1.97
Net income	$1,559	$8,681
Net income per share	$ .35	$ 1.97

Notes to Financial Statements

(9) Change in Method of Accounting for Commitment Fee Income

In the fourth quarter of 1975, the Trust changed its method of accounting for commitment fee income as described in note (b) to the statement of significant accounting policies. The net effect of the change was to reduce 1975 net income by $798,291 ($.18 per common share). The adjustment of $1,330,304 to retroactively apply the new method is included as a reduction of 1975 net income. The pro forma amounts shown on the statements of income include an adjustment for the effect of retroactive application had the new method been in effect prior to 1975.

Statement of Significant Accounting Policies

• • • •

(B) Income and Expense Recognition

• • • •

Commitment fee income in 1975 has been recognized on the deferral method recommended by Statement of Position 1975-2, *Accounting Practices of Real Estate Investment Trusts*, issued on June 27, 1975 by the American Institute of Certified Public Accountants ("AICPA"). Under this method, commitment fees are recognized as income over the commitment period and the term of the related loan. In the event that a loan does not close during the commitment period, the unamortized portion of the fee is taken directly into income. This change has been applied retroactively to commitment fees received prior to 1975. Prior to 1975, commitment fees were recognized as income when received. For tax purposes, commitment fee income continues to be recognized when received.

FUEL EXPENSE RECOGNITION

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
Income Statement

	Year Ended December 31, 1975	1974
••••		
Earnings per common share based on weighted average number of shares outstanding during each year (61,548,128 and 61,548,077) (a):		
Income for common stock before extraordinary item and cumulative effect on prior years of change in accounting for fuel costs	$3.74	$2.68
Extraordinary item	(.38)	(.32)
Cumulative effect on prior years of change in accounting for fuel costs	—	.08
Net income for common stock	$3.36	$2.44
Pro forma income and earnings per share, assuming effect of change in accounting for fuel costs is applied retroactively:		
Income before extraordinary item ($230,438,836 and $164,643,270)	$3.74	$2.68
Net income for common stock ($207,088,836 and $145,089,270)	$3.36	$2.36

(a) Fully diluted earnings per share, based on the assumption of full conversion of the outstanding shares of Cumulative Preference Stock, 6% Convertible Series B, have not been shown since dilution is less than 3%

Notes to Financial Statements

Note A—Summary of Significant Accounting Policies

••••

Recoverable Fuel Costs

Fuel costs which are recoverable under the Company's electric and steam fuel riders are deferred until the period in which they are billed to customers. See Note B, Accounting Change. With respect to its gas service, the excess or deficiency of the fuel rider is accumulated for refund or surcharge to the customer on an annual basis and recorded in other deferred charges.

In recent decisions by the PSC, the Company was allowed to recover in its electric and steam rates certain portions of its deferred recoverable fuel costs which were affected by a shortening of the billing lag period and an increase in the base cost of fuel. Based on these and other decisions of the PSC, the Company believes that all remaining deferred recoverable fuel costs would be allowed in future billings, should there be any further revision in tariffs affecting these items.

••••

Note B—Accounting Change

Effective January 1, 1974 the PSC authorized the Company to change its accounting for fuel costs recoverable under the steam fuel rider clause in its approved tariffs by deferring recognition of such costs in the income statement to the period in which they are billed to customers. This change resulted in the deferral of $19,332,749 of steam fuel costs at December 31, 1974 and an increase in net income for the year 1974, after related deferred Federal income taxes, of $10,052,749 ($.16 per share) of which $4,932,105 ($.08 per share) was reflected in current operations and $5,120,644 ($.08 per share) represented the cumulative effect on prior years (to December 31, 1973). This change has the effect of better matching fuel costs and related fuel rider revenues.

DUQUESNE LIGHT COMPANY
Statement of Consolidated Income

	For the Years Ended December 31, 1975	1974
••••		
Average Number of Common Shares Outstanding	24,739	20,983
Earnings per Average Share of Common Stock:		
Before Cumulative Effect of Change in Accounting for Fuel Costs	$2.37	$2.30
Cumulative Effect to December 31, 1973 of Change in Accounting for Fuel Costs	—	.15
Total	$2.37	$2.45
Pro Forma Amounts Assuming the Change in Accounting for Fuel Costs Had Been Applied Retroactively:		
Earnings for Common Stock	$58,663	$48,362
Earnings per Average Share of Common Stock	$2.37	$2.30

Notes to Financial Statements

2. Change in Accounting for Fuel Costs

Effective January 1, 1974 the Company changed its method of accounting for fuel costs to defer the difference between current fuel costs and base fuel costs until the period in which such difference is reflected in billings to customers through the fuel cost adjustment clause. The Company had previously charged fuel costs to income in the period the fuel was consumed. This change was made, with the approval of the Pennsylvania Public Utility Commission, to more appropriately match rapidly escalating fuel costs with related revenues. The cumulative effect of the change to December 31, 1973 increased net income for 1974 by $3,092,126 (deferred fuel costs of $6,570,604 less income tax effect of $3,478,478) or $.15 per share. The pro forma amounts shown on the statement of consolidated income represent the amount of earnings for common stock and earnings per share assuming the change in accounting for fuel costs had been applied retroactively to years prior to 1974.

NIAGARA MOHAWK POWER CORPORATION
Consolidated Statement of Income and Retained Earnings

	For the year ended December 31, 1975	1974	1973	1972	1971
	••••				
Average number of shares of common stock outstanding	47,089,331	42,032,244	36,170,326	33,751,148	33,537,449
Per average share of common stock:					
Income before cumulative effect of accounting change	$2.03	$1.70	$1.39	$1.81	$1.47
Cumulative effect of accounting change (Note 3)	—	$ .22	—	—	—
Net income (Note 3)	$2.03	$1.92	$1.39	$1.81	$1.47
Dividends paid	$1.21	$1.18	$1.15	$1.12	$1.10
Pro forma amounts reflecting the consistent application of the change to energy deferral accounting (Note 3):					
Balance available for common stock	$95,365	$71,425	$56,787	$61,760	$49,635
Earnings per average share of common stock	$2.03	$1.70	$1.57	$1.83	$1.48

( ) Denotes deduction.

Notes to Financial Statements

Note 3. Accounting Change

Effective January 1, 1974, as permitted by a PSC policy statement, the Company changed its accounting for the increased energy costs above or below the levels allowed in approved rate schedules to defer those costs until the time they are billed to customers thus achieving a better matching of revenue and expense. This accounting change, net of deferred income taxes of $3,170,000, resulted in an increase in net income for 1974 of $34,629,000 ($.82 per share), of which $25,223,000 ($.60 per share) was credited to income before cumulative effect of accounting change and $9,406,000 ($.22 per share), net of deferred income taxes of $400,000, represented the cumulative effect to January 1, 1974 of the accounting change. Effective March 1975, the PSC required the Company to make changes in its electric adjustment clause to shorten the lag in billing of the increased energy costs from 3 months to 2 months and increase the base energy costs included in its tariff rates. As a result, approximately $31,000,000 of then unrecovered deferred energy costs are being recovered through the electric adjustment clause over a period of 36 months.

WASHINGTON GAS LIGHT COMPANY
Consolidated Statements of Income

	For the years ended December 31, 1975	1974
• • • •		
Earnings per Average Share of Common Stock		
Based on average shares outstanding		
(for 1975—4,275,427; for 1974—4,265,904 shares):		
Before cumulative effect of a change in accounting principle (Note 2)	$ 1.49	$ 2.72
Cumulative Effect of a Change in Accounting Principle on Years Prior to 1975 (Note 2)	.47	—
Net income	$ 1.96	$ 2.72
Pro Forma Income and Earnings per Average Share		
Assuming that the effect of the change in accounting principle is applied retroactively (Note 2):		
Net income applicable to common stock	$6,367	$12,187
Earnings per average share of common stock	$ 1.49	$ 2.86

Notes to Financial Statements

2. Change in Accounting Principle

In 1975, the Company changed its method of accounting for the commodity cost of gas purchased by deferring that portion of such cost (previously charged to expense) applicable to gas delivered to customers but not yet billed under the cycle billing system. The new method was adopted to achieve a better matching of expense with revenue. The accounting change, net of deferred income taxes of $2,915,000, resulted in an increase in net income for 1975 of $2,968,000 ($.69 per average common share) of which $941,000 ($.22 per average common share) was reflected in current operations and $2,027,000 ($.47 per average common share) represented the cumulative effect on operations on years prior to 1975.

If the 1974 income statement had been restated for the effect of the change in accounting for the commodity cost of gas purchased applicable to 1974 operations, net income would have been increased by $594,000 ($.14 per average common share).

INVENTORY COST ALLOCATION

HESSTON CORPORATION
Consolidated Statement of Income

	Years ended September 30, 1975	1974
• • • •		
Per share amounts:		
Earnings per common share—assuming no dilution:		
Income before cumulative effect of a change in accounting principle	$3.95	$4.15
Cumulative effect on prior years (to September 30, 1974) of a change in method of costing inventories	.65	
Net income	$4.60	$4.15
Earnings per common share—assuming full dilution (Note 3):		
Income before cumulative effect of a change in accounting principle	$3.66	
Cumulative effect on prior years (to September 30, 1974) of a change in method of costing inventories	.57	
Net income	$4.23	

Pro forma amounts assuming the new inventory costing method is applied retroactively (Note 1):		
Net income	$8,275	$8,783
Earnings per common share:		
Assuming no dilution	$3.95	$4.42
Assuming full dilution (Note 3)	$3.66	

Notes to Financial Statements

1. Change in method of costing inventories

In fiscal 1975, the Company changed its method of costing domestic inventories, pursuant to changes in Internal Revenue Service regulations, by expanding the composition of elements of overhead costs included in inventory. This change constitutes a refinement of the inventory costing procedure and more properly matches revenues and costs. The effect of the change in 1975 was to increase income before the cumulative effect of a change in accounting principle $821,000 ($.42 per share). The adjustment of $1,297,000 (after reduction for income taxes of $1,197,000), retroactively applying the new method, is included in net income of 1975. The pro forma amounts show the effect of retroactive application of the revised inventory costing, the change in provision for profit sharing that would have been made in 1974 had the new method been in effect, and related income taxes.

THE LAMSON & SESSIONS CO.
Consolidated Statement of Earnings

	Year Ended December 31	
	1975	1974 (Note C)
• • • •		
Per Share Amounts—Notes B and C:		
Earnings from continuing operations before cumulative effect of a change in accounting principle	$1.78	$6.18
Loss from discontinued operations	(.67)	(.74)
Cumulative effect on prior years (to December 31, 1974) of change in inventory costing method	1.14	—0—
Net Earnings Per Common Share	$2.25	$5.44

Notes to Financial Statements

Note B—Inventories

Inventories in the consolidated statement of financial position are comprised of the following:

	December 31	
	1975	1974
Finished and in-process products	$16,978,126	$18,207,997
Raw materials	8,558,519	11,118,733
Manufacturing supplies	641,975	873,153
	$26,178,620	$30,199,883

The Company values its inventories at the lower of cost or market. The method of determining cost for all Industrial Fastener Division inventories is the last-in, first-out method after the change (not material in amount) effective January 1, 1975, in the method of determining inventory costs for a subsidiary acquired in November, 1974. If all inventories had been valued at standard costs on a first-in, first-out basis, inventories would have been $6,007,000 and $4,779,000 higher than reported at December 31, 1975 and 1974, respectively. Inventory at other units is stated principally at standard costs, which approximate actual cost, on a first-in, first-out basis. Inventories valued on the last-in, first-out method amounted to $19,133,590 at December 31, 1975 ($20,313,667 at December 31, 1974).

Effective January 1, 1975, the Company changed its method of inventory costing for both financial reporting and tax purposes to include certain costs in inventory which were previously accounted for as period costs. The Company believes the newly adopted method of inventory costing is a preferable alternative under generally accepted methods of accounting for inventories since it provides a better matching of revenues and expenses. The effect of this change was to increase inventory at December 31, 1975 by approximately $2,500,000 ($3,010,000 at December 31, 1974) and, in 1975, reduce earnings from continuing operations before cumulative effect of a change in accounting principle by approximately $253,000 ($.14 a share) and increase net earnings by approximately $1,757,000 ($1.00 a share).

The following pro forma figures represent historical amounts adjusted for the effect of retroactive application of the change in method of inventory costing and the change in the provision for income taxes which would have been made had the new method been in effect:

	Year Ended December 31	
	1975	1974
As historically reported:		
Earnings from continuing operations before cumulative effect of a change in accounting principle	$3,141,049	$10,923,950
Cumulative effect on prior years (to December 31, 1974) of change in inventory costing method, less applicable income taxes	2,010,158	—0—
Net earnings	3,966,771	9,617,414
Per share amounts:		
Earnings from continuing operations	1.78	6.18
Cumulative effect on prior years of change in inventory costing method	1.14	—0—
Net earnings per common share	2.25	5.44
Pro forma amounts assuming the new inventory costing method is applied retroactively:		
Earnings from continuing operations	3,141,049	11,185,883
Earnings per common share	1.78	6.34
Net earnings	1,956,613	9,879,347
Net earnings per common share	1.11	5.60

PNEUMATIC SCALE CORPORATION

Notes to Financial Statements

Note B—Change in Accounting Method

Effective December 1, 1974, the Company changed its method of accounting for overhead included in inventories to conform to the "full absorption" method which is required under regulations of the Internal Revenue Service. Certain overhead costs which were previously charged directly to operations are now included in inventories as of November 30, 1975 as the result of using the "full absorption" method. The "full absorption" method generally provides a better matching of costs and revenues. The cumulative effect of this change on prior years to November 30, 1974 increased net income by $572,656 ($.95 per share); this amount, which is shown separately in the consolidated statements of income and retained earnings, is not subject to federal income taxes under the applicable regulations of the Internal Revenue Code. Pro forma net income and net income per share, assuming the "full absorption" method had been adopted as of December 1, 1973, would be approximately the same as previously reported for 1974.

RUSSELL CORPORATION

Consolidated Statements of Income

	For the years ended	
	January 3, 1976 (53 weeks)	December 28, 1974 (52 weeks)
• • • •		
Per share data:		
Earnings per common and common equivalent share:		
Income before cumulative effect of a change in accounting principle	$3.71	$3.51
Cumulative effect on years prior to 1975	.50	—0—
Net income	$4.21	$3.51
Pro forma amounts assuming the new method of inventory costing is applied retroactively (Note B)		
Net income	$6,348	$5,923
Net income per common and common equivalent share	$3.71	$3.54

Notes to Financial Statements

Note B—Changes in Accounting Principle

Effective December 29, 1974, the Company changed its method of inventory costing for both financial reporting and tax purposes to conform with revised tax regulations. This change to the full absorption cost basis resulted in an increase in 1975 net income of $225,000 ($.13 a share). The cumulative net income effect of the change on years prior to 1975 was $852,155 ($.50 a share) and is taxable over a ten-year period commencing in 1975.

ROBLIN INDUSTRIES, INC

Notes to Financial Statements

Note A—Summary of Significant Accounting Policies:

Inventories— • • • •

Effective January 1, 1975, Roblin changed its method of inventory costing for both financial reporting and tax purposes to include in overhead certain indirect production costs which were previously accounted for as period costs. Roblin believes the newly adopted method of inventory costing will provide a better matching of revenues and expenses and is therefore preferable to the method previously used.

The effect of the change in 1975 was to increase inventory by approximately $253,000, to reduce income before cumulative effect of a change in accounting principle by approximately $66,000 ($.03 per primary and dilutive share), and to increase net income by approximately $117,000 ($.07 per primary and $.04 per dilutive share), all of which is taxable over a ten-year period commencing with 1975.

The pro forma net income assuming the new method of inventory costing when applied retroactively in 1975 is $2,082,993 ($.95 per primary and $.83 per dilutive share) and in 1974 is $4,762,909 ($2.26 per primary and $1.83 per dilutive share) which represents historical amounts adjusted for the effect of retroactive application of the change in method of inventory costing and the change in provision for income taxes which would have been made had the new method been in effect.

• • • •

TENNA CORPORATION

Consolidated Statements of Income

	Year Ended January 31	
	1976	1975
• • • •		
Net income per Common Share:		
Income before extraordinary credit and cumulative effect of a change in accounting principle	$ —	$.17
Extraordinary credit	.01	.01
Cumulative effect adjustment	.20	—
Net income	$.21	$.18
Pro forma amounts as if change in accounting principle had been applied retroactively:		
Net income	$25	$544
Net income per Common Share	.01	.19

Notes to Financial Statements

Note B—Change in Accounting Principle

Effective February 1, 1975, the Corporation changed its method of costing domestic inventories, pursuant to recent Internal Revenue Service regulations, for both financial reporting and tax purposes, to include in overhead certain indirect production costs which were previously accounted for as period costs. The Corporation believes the newly adopted method of inventory costing will provide a better matching of revenues and expenses and is therefore preferable to the method previously used. The effect of the change was to increase 1976 inventories by approximately $486,000. The effect on the consolidated statement of income for 1976 was to decrease income before cumulative effect of a change in accounting principle by approximately $98,000 ($.03 a share), and increase net income by approximately $486,000 ($.17 a share).

ZENITH RADIO CORPORATION

Consolidated Statements of Income

	for the years ended December 31, 1975	1974 (Restated; Note 2)
• • • •		
Net income per share, based on average shares outstanding:		
Income after taxes but before cumulative effect of accounting changes	$1.38	$.53
Cumulative effect of accounting changes (Note 2):		
Change in overhead costs absorbed in inventory	.26	—
Change in accounting for investment tax credit	—	.07
Net income per share	$1.64	$.60

Pro forma amounts, assuming retroactive application of the change in overhead costs absorbed in inventory:		
Net income	$25,963	$12,261
Net income per share	$1.38	$.65

Notes to Financial Statements

Note 2—Changes in Accounting Policies

• • • •

Inventory Overhead Costs—Effective January 1, 1975, the Company began including in inventory certain overhead costs which, pursuant to the Company's policy, had been treated as period expenses in prior years. The change was made in compliance with Internal Revenue Service requirements. The accounting change had the effect of reducing 1975 net income (excluding cumulative effect) by $0.4 million ($0.02 per share). The prior years' cumulative effect of application of the change resulted in an increase in 1975 net income by $4.8 million ($0.26 per share).

LIFO Method of Inventory Costing—As of January 1, 1974, the Company changed the costing method for a major portion of inventories to the last-in, first-out (LIFO) method from the first-in, first-out (FIFO) method. Use of the LIFO method has the effect of reflecting the most recent product costs in the income statement, and was adopted in order to more closely match current costs with current revenues during periods of increasing price levels. This change had the effect of reducing 1974 net income by $4.1 million ($0.22 per share); adoption of the LIFO method has no cumulative effect on retained earnings as of December 31, 1973.

The portion of the inventories valued under the LIFO method was $162.2 million in 1975 and $177.0 million in 1974, whereas on a FIFO basis such inventories would have been higher by $7.9 million and $8.3 million, respectively. As of December 31, 1975 and 1974, both methods of costing physical quantities were used, as shown below:

	December 31,	
	1975	1974
	(In thousands)	
Raw material and work in process:		
At LIFO cost which does not exceed market	$113,673	$132,412
At lower of FIFO cost or market	18,169	24,564
Total	131,842	156,976
Finished goods:		
At LIFO cost which does not exceed market	48,481	44,551
At lower of FIFO cost or market	18,629	22,601
Total	67,110	67,152
Total inventories	$198,952	$224,128

Investment Tax Credit—As of January 1, 1974, the Company changed from the "deferral" to the "flow-through" method of accounting for investment tax credit, in order to more closely conform its accounting policies with those of other companies within the industry. Under the "flow-through" method the credit amounts are reflected in income at the time the related tax benefit is realized. For the year ended December 31, 1974, the change had no significant effect on net income (exclusive of the cumulative adjustment which arises from crediting 1971 through 1973 deferred investment tax credits to income).

INVENTORY PRICING

THE GARCIA CORPORATION

Consolidated Statements of Income

	Year Ended July 31	
	1975	1974 (Restated)
• • • •		
Per common share:		
Income before extraordinary credit and cumulative effect of changes in accounting principles	$.11	$.17
Extraordinary credit	.01	.08
Cumulative effect on prior years (to beginning of year) of changes in accounting principles	(.04)	.03
Net Income	$.08	$.28
Weighted average number of shares outstanding used in computing per share amounts	3,213	2,777

Pro forma amounts assuming that the changes in accounting principles were applied retroactively:		
Income before extraordinary credit	$392	$559
Per common share	$.11	$.19
Net income	$439	$814
Per common share	$.12	$.28

Notes to Financial Statements

4. Changes in Accounting Principles

Effective August 1, 1973, the Company changed the composition of the elements of cost included in inventories at its manufacturing locations. Such change reflects the current costs of manufacturing the Company's products and, therefore, more accurately matches costs and revenues.

The effect of the change in 1974 increased income before extraordinary credit by $77,510 ($.03 per share). The adjustment of $119,475 (after income tax effect of $116,178) to retroactively apply the change was also included in net income in 1974.

Effective August 1, 1974, the Company changed the method of pricing its tackle parts inventory. Such change reflects the actual cost of the purchased parts and therefore, more accurately matches costs and revenues. The effect of this change in 1975 was to decrease income before extraordinary credit by $152,228 ($.05 per share). The adjustment of $138,923 to retroactively apply the change was charged against net income in 1975.

• • • •

INVESTMENT CREDIT TREATMENT

COMMUNITY PUBLIC SERVICE COMPANY
Statement of Earnings

	Years ended December 31, 1975	1974
• • • •		
Per share of common stock:		
Earnings before cumulative effect on prior years of change in accounting for investment tax credits	$ 2.25	$ 2.43
Cumulative effect on prior years (to December 31, 1974) of change in accounting for investment tax credits	(.85)	—
Net earnings	$ 1.40	$ 2.43
Pro forma amounts assuming the new method of accounting for investment tax credits is applied retroactively:		
Net earnings	$4,039	$3,596
Earnings available for common stock	$3,347	$3,244
Net earnings per share of common stock	$ 2.25	$ 2.18

Notes to Financial Statements

(2) Change in Method of Accounting for Investment Tax Credits

Prior to 1969, investment tax credits were deferred and credited to earnings over the lives of the assets to which they were related. Beginning with 1969, the Company changed its method of accounting for investment tax credits to the flow-through method, which recognized such credits as reduction of Federal income tax expense in the year the related assets were put into service. The December 31, 1968, balance of accumulated deferred investment tax credits was amortized $222,579 annually over a five-year period through 1973. Investment tax credits recognized under the flow-through method for the years 1969 through 1974 aggregated $1,340,997.

In 1975, the method of accounting for investment tax credits was changed from the flow-through method to the deferral method to recognize more appropriately the benefits of the credits over the lives of the related assets. The $1,262,995 cumulative effect of the change for prior years (to December 31, 1974) has been charged to earnings for the year ended December 31, 1975. The effect of the change for the year ended December 31, 1975, was to reduce earnings before cumulative effect of change in accounting principle by $962,457 ($0.64 per common share) and net earnings by $2,225,452 ($1.49 per common share).

GEORGE BANTA COMPANY, INC.

Consolidated Statement of Earnings

	(Fifty-Three Weeks Ended January 3, 1976 and Fifty-Two Weeks Ended December 28, 1974) 1975	1974
• • • •		
Per Share of Common Stock (Notes 2 and 9)		
Earnings before cumulative effect of change in accounting	$2.02	$1.90
Cumulative effect of change in accounting on years prior to 1975	.25	—
Net earnings—primary	$2.27	$1.90
Net earnings—fully diluted	$2.14	$1.80
Pro Forma Amounts Assuming Retroactive Application of Change in Accounting (Note 2)		
Net earnings	$3,716	$3,583
Net earnings per share of common stock		
Primary	$2.02	$1.95
Fully diluted	$1.91	$1.85

Notes to Financial Statements

(2) Change in Accounting for Investment Credit

In 1975 the Company changed to the flow-through method of accounting for the Federal investment tax credit. Under this method, the full amount of the credit is reflected in earnings as a reduction of the provision for taxes in the period in which the qualified assets are placed in service. Prior to 1975 the investment credit was accounted for under the deferral method, whereby the credit was treated as a reduction in the cost of the qualified assets and was amortized to earnings over the estimated useful lives of the assets.

The Company has followed the policy of making continuous investment in modern efficient equipment and facilities. The start-up expenses related to installation of this new equipment tend to occur in the same period as realization of investment credit under the flow-through method. Also, recent surveys show a significant majority of publicly traded companies use the flow-through method, thus facilitating more meaningful comparison of financial statements.

The change to the flow-through method increased 1975 earnings before cumulative effect of the change in accounting by $257,000 ($.15 per share). The cumulative effect of the change in accounting on years prior to 1975 ($445,000—$.25 per share) is also included in 1975 net earnings. The pro forma amounts shown in the consolidated statements of earnings give effect to the retroactive application of this change.

NASHUA CORPORATION

Statement of Income and Retained Earnings

	Year Ended December 31, 1975	Year Ended December 31, 1974
• • • •		
Per share of common stock:		
Income before cumulative effect of change in accounting principle	$0.31	$2.68
Cumulative effect on prior years (to Dec. 31, 1974) of changing the method of accounting for investment tax credits	0.29	—
Net income	$0.60	$2.68
Dividends paid	$0.60	$0.54
Pro forma amounts assuming accounting change applied retroactively:		
Net income	$1,424	$13,103
Net income per common share	$0.31	$2.84

Notes to Financial Statements
Accounting Policies

● ● ● ●

Income Taxes

● ● ● ●

During 1975, the method of accounting for the investment tax credit was changed from the deferral method to the flow-through method to conform with general industry practice. The new method has been applied to investment tax credits arising since 1971 which had been deferred and amortized over the remaining estimated lives of the related assets. The pro forma amounts reflect the effect of retroactive application on the provision for income taxes that would have been made if the new method had been in effect in 1974.

● ● ● ●

MAINTENANCE EXPENSE RECOGNITION

ALASKA AIRLINES, INC.
Statement of Consolidated Operations

	Year Ended December 31	
	1975	1974
● ● ● ●		
Earnings per common share and common equivalent share—Note 1		
Income before extraordinary item and cumulative effect of a change in accounting method	$ .77	$ .39
Extraordinary item	.71	.36
Cumulative effect on prior years arising from change in method of accounting for overhaul costs	.12	.36
Net income	$1.60	$1.11
Earnings per common share—assuming full dilution—Note 1		
Income before extraordinary item and cumulative effect of a change in accounting method	$ .70	$ .37
Extraordinary item	.65	.34
Cumulative effect on prior years arising from change in method of accounting for overhaul costs	.11	.34
Net income	$1.46	$1.05
Pro forma amount assuming the new method of accounting for overhauls is applied retroactively—Note 10		

Notes to Financial Statements

Note 10 Overhaul Costs Applicable to Previously Leased Aircraft and Engines

On March 15, 1974, the Company purchased three Boeing 727 aircraft and three spare engines and on September 17, 1975 purchased one Boeing 727 aircraft, all of which formerly had been leased.

The leases required that the aircraft and engines be returned in zero time condition at expiration of the lease. In recognition of this, the Company had been accruing the estimated cost of the required future overhauls. Upon purchase, the Company changed the method of accounting for these aircraft and engines to one which considers a portion of the costs as the unused cost of overhaul. Under this method of accounting, the unused overhaul cost is amortized over the period to the next overhaul, based on usage time prescribed by the Federal Aviation Administration, and the cost of overhaul when performed is capitalized by a charge to the overhaul reserve. As a consequence of this change, the amount of $472,743 ($.12 per share) in 1975 and $1,357,285 ($.36 per share) in 1974 previously accrued for future overhauls was credited to income (with no income tax effect) and represents the cumulative effect on prior years of the change in method of accounting for overhaul costs. This accounting change and credit to income was approved by the Civil Aeronautics Board, which prescribes accounting for airlines.

This change had no material effect on income for 1975 or 1974 except for the credit to income of the cumulative effect of the change discussed in the preceding paragraph. Consequently, had the change not occurred, net income would have been $5,638,611 ($1.48 per share) in 1975 and $2,811,040 ($.75 per share) in 1974.

SEABOARD WORLD AIRLINES, INC.

Consolidated Statement of Income and Retained Earnings

	Years ended December 31, 1975	1974
• • • •		
Per share amounts (Note 9):		
Income (loss) before extraordinary item	$(.21)	$.37
Extraordinary item	.22	.06
Cumulative effect of change in accounting principle	.20	—
Net income	$.21	$.43
Pro forma amounts assuming new method of accounting for certain overhaul expenses was applied retroactively:		
Income (loss) before extraordinary item	$(1,265)	$2,364
Per share	$(.21)	$.39
Net income	$ 66	$2,703
Per share	$.01	$.45

Notes to Financial Statements

1. Summary of significant accounting policies

• • • •

Fixed assets, depreciation and overhauls

• • • •

Through 1974 it was the Company's policy to charge the cost of engine and landing gear overhauls to expense on a current basis. In the last quarter of 1975, the Company decided, effective January 1, 1975, to defer (a) such costs applicable to owned aircraft and those leased on a long-term basis and (b) the cost of overhauls of engines accompanying short-term leased aircraft, to the extent that such costs are recoverable from lessors and/or through the Company's future use of the engines involved. Such deferred amounts are to be charged to operations on a flight-hour basis. Prior to the time of overhaul of engines covered by short-term leases, usage costs are to be provided for on the basis of flight-hour rates stipulated in the leases.

This change in accounting policy, which is an extension of a similar policy adopted in 1973 with respect to airframe overhauls, was adopted to provide a more equitable allocation of such overhaul costs among accounting periods. The change increased depreciation and amortization applicable to aircraft operations by $1,660,385, reduced maintenance expense by $3,486,846, and reduced the loss for 1975 by $1,388,461 ($.23 per share) before the extraordinary item and the cumulative effect of the change.

Other maintenance costs are charged to operations as incurred.

• • • •

WESTERN AIR LINES, INC.

Item 2. Statements of Earnings

	December 31, 1971	1972	1973	1974	1975
• • • •					
Earnings per share (h):					
Primary:					
Earnings before extraordinary item and cumulative effect of a change in accounting principle	$ 0.39	0.75	1.35	1.59	0.34
Extraordinary item	0.04	—	—	—	—
Cumulative effect of a change in accounting principle	—	—	—	—	0.47
Net earnings	$ 0.43	0.75	1.35	1.59	0.81
Fully diluted (assuming conversion of debentures):					
Earnings before extraordinary item and cumulative effect of a change in accounting principle	$ 0.38	0.68	1.21	1.41	0.33
Extraordinary item	0.03	—	—	—	—
Cumulative effect on a change in accounting principle	—	—	—	—	0.41
Net earnings	$ 0.41	0.68	1.21	1.41	0.74

Pro forma amounts assuming the accounting change is applied retroactively:					
Earnings before extraordinary item	$7,871	10,573	16,074	24,608	5,160
Per share:					
Primary	$ 0.52	0.70	1.07	1.63	0.34
Fully diluted	0.49	0.65	0.96	1.44	0.33
Net earnings	8,247	10,573	16,074	24,608	5,160
Per share:					
Primary	0.55	0.70	1.07	1.63	0.34
Fully diluted	0.52	0.65	0.96	1.44	0.33

Notes to Statement of Earnings

(d) • • • •

In 1975 Western changed its method of accounting for costs of major flight equipment maintenance from one of charging such costs to reserves (accumulated by charges to income on an hours-flown basis) to one of direct expensing of such costs as incurred. Western believes the newly adopted method is preferable because it better reflects changes in the physical manner in which airframes and engines are maintained and is the method followed by the other ten major U.S. airlines. The $7,160,000 cumulative effect of this change on prior years ($13,785,000 less deferred income taxes of $6,625,000) is included in net earnings for the year 1975. This change had no other material effect on net earnings for 1975. Periods prior to December 31, 1974 have not been restated. The pro forma amounts reflect the retroactive effect of this change on net earnings for the periods prior to December 31, 1974.

PROFIT RECOGNITION

AMFAC, INC.
Statement of Income

	Year Ended December 31				
	1975	1974	1973	1972	1971
• • • •					
Primary Earnings Per Share (Note 10):					
Income from continuing operations	$3.25	$5.57	$2.40	$2.06	$1.88
Income (loss) from discontinued operations	(.08)	(.63)	(.08)	.06	—
Cumulative effect on prior years of accounting changes	(1.47)	—	—	—	—
Net income	$1.70	$4.94	$2.32	$2.12	$1.88
Fully Diluted Earnings Per Share (Note 10):					
Income from continuing operations	$3.04	$5.14	$2.28	$1.97	$1.79
Income (loss) from discontinued operations	(.07)	(.58)	(.08)	.05	—
Cumulative effect on prior years of accounting changes	(1.33)	—	—	—	—
Net income	$1.64	$4.56	$2.20	$2.02	$1.79
Cash Dividends Per Common Share	$1.00	$.70	$.64	$ .60	$ .58
Pro Forma Amounts (giving retroactive effect to accounting changes; see Note 2):					
Revenues	$1,133,817	$1,114,937	$877,831	—	—
Income from continuing operations	38,496	48,801	26,297	—	—
Net income	37,496	41,476	25,340	—	—
Primary earnings per share:					
Income from continuing operations	3.25	4.24	2.29	—	—
Net income	3.17	3.61	2.21	—	—

Notes to Financial Statements

2. Accounting Changes: Under new accounting methods adopted in 1975, (a) estimated sugar profits are deferred until sales are ultimately made by C and H to its customers, (b) investment in C and H is stated at equity and (c) retail purchase discounts are deferred until sales are made to customers. Consistent with the change to the equity method, Amfac's net income of prior years has

been restated to include its share of operating profits and losses reported by C and H. Such amounts include C and H's antitrust litigation settlement which C and H charged to the years covered by the litigation, 1969-1974 (see Note 12).

As shown in the following tabulation, net income for 1975 would have been $1,140 or $.10 per share higher if (a) Amfac had not adopted the new accounting methods which it considers preferable and (b) its share of estimated future withholdings by C and H had been charged to 1975 expenses instead of to the years covered by the litigation (see Note 12):

	Increased (Decreased)	
	Amount	Per Share
Sugar profits deferred at year-end	$1,603	$.14
C and H litigation charge	(1,285)	(.11)
Retail purchase discounts deferred	822	.07
Total	$1,140	$.10

Amfac's five sugar companies sell their sugar to C and H. Prior to 1975, Amfac's investment in C and H was carried at cost and sugar revenues ($54,000, $55,000, $68,000, $209,000 and $130,000 for the five years ended December 31, 1975) were accrued at the time of sale to C and H based on C and H's estimated net return (sales proceeds, including estimates for unsold sugar of C and H, less costs, expenses and withholdings for capital reserves). Since 1921, C and H has increased its capital principally through retaining in certain years a small portion of members' revenues from the sale of sugar. Amfac's interest in such capital reserves was not completely identified until September 1975 when it was advised by C and H of its allocation.

Prior to 1974, sugar prices remained relatively stable primarily because the domestic sugar industry was covered by the Sugar Act of 1948, as amended. This Act expired on December 31, 1974 and no substitute legislation has been enacted to date. In 1974, sugar prices increased to historic highs and have since declined substantially. The change in method of accounting for sugar profits was made because proceeds from the sale of C and H unsold sugar cannot be estimated accurately during periods of severely fluctuating sugar prices. The equity method for Amfac's investment in C and H is more consistent with its new method of accounting for sugar profits.

Prior period financial statements have been restated for the change to the equity method of accounting for the investment in C and H. Such restatement increased (decreased) previously reported net income as follows: 1974 $920, 1973 $(464), 1972 $(448), 1971 $(372), and years prior $4,934.

Amfac also changed its method of accounting for retail purchase discounts. Previously, purchase discounts were treated as revenue when received. Such discounts are now deferred as a reduction of inventory and are not included in income until sales are made to customers.

The cumulative effect on earnings reinvested at the beginning of 1975 resulting from the changes in accounting for sugar revenues ($16,585 or $1.40 per share) and retail purchase discounts ($822 or $.07 per share) has been included in the accompanying financial statements as a charge against 1975 net income. Pro forma amounts in the statements of income for 1975, 1974 and 1973 include the effect of applying the new accounting methods retroactively. The effect on periods prior to 1973 would not be material.

• • • •

PUBLICATION EXPENSE RECOGNITION

PRENTICE-HALL INC.

Statement of Consolidated Income and Retained Earnings

	Year Ended December 31	
	1975	1974
• • • •		
Income per share of common stock:		
(Based on average shares outstanding)		
Income before cumulative effect on prior years of a change in accounting principle	$1.96	$1.88
Cumulative effect on prior years of a change in accounting principle	.20	—
Net Income	$2.16	$1.88
Pro forma amounts assuming change in accounting principle applied retroactively:		
Net income	$19,553	$19,453
Net income per share of common stock	$1.96	$1.94

2. Change in Accounting Principle

Beginning in 1975, costs of a capital nature incurred from the time a decision is made to publish a book have been capitalized and are being depreciated using the sum-of-the-years digits method; previously such costs were either charged to cost of sales during the first printing of the book or expensed as incurred. In addition, certain costs incurred from the beginning of printing until the book is available for distribution have been recorded as inventory and are being charged to cost of sales as units are shipped; previously these costs were expensed as incurred.

The method of accounting for these costs was changed to better match expenses with revenues and to adopt the accounting practice presently used by most educational publishers. The new method has been applied retroactively to costs of prior years which would not have been depreciated or were included in inventories as of January 1, 1975, the cumulative effect of which is $2,020,000 as of such date (after reduction for income taxes of $2,190,000 of which $1,971,000 is deferred to future years), and is included in net income of 1975. The effect of the change for 1975 resulted in an increase of approximately $1,100,000 in income before taxes. The effect on net income is approximately $900,000 (after investment tax credits of $400,000) or $.09 per share of common stock. The pro forma amount for 1974 shown on the statement of consolidated income has been adjusted for the effect of retroactive application of this change, net of related income taxes.

RELOCATION COSTS TREATMENT

THE WICKES CORPORATION
Consolidated Statements of Income

	Fiscal 1976	Fiscal 1975 (Restated)

••••

	Fiscal 1976	Fiscal 1975 (Restated)
Earnings per share (Note 15):		
From continuing operations	$ .55	$1.44
Discontinued operations:		
Loss from operations	(.75)	(.60)
Estimated loss on disposal	(1.71)	—
Before extraordinary item and accounting change	(1.91)	.84
Extraordinary item	—	.62
Accounting change	—	(.29)
Net income (loss)	$(1.91)	$1.17
Pro forma amounts with accounting change applied retroactively:		
Net income		$14,890
Net income per share		$1.46

Notes to Financial Statements

1. Significant Accounting Policies:

••••

Deferred Charges—Prior to January 27, 1974 the Company deferred the costs of certain larger projects (major relocations, start-up costs of new businesses, development of new systems, and similar items) believed by management to have long-term benefits, and amortized these costs over the future periods in which the benefits were expected to be realized. Effective January 27, 1974, the beginning of fiscal 1975, this accounting policy was changed to eliminate such deferrals and to expense these and all similar future costs as incurred. The Company believes this accounting policy will clarify the identification and incidence of such costs and provide more consistent matching of revenue and expense. This change in accounting policy resulted in a nonrecurring charge against income in fiscal 1975 of $2,984,000, representing the unamortized balance of deferred costs (net of income taxes of $3,462,000) at the beginning of fiscal 1975.

••••

SELF-INSURANCE COST

ACME PRECISION PRODUCTS, INC.
Consolidated Statement of Operations

	For the Years Ended September 30, 1975	1974
• • • •		
Earnings Per Common Share (Note 4):		
Income before extraordinary credit and cumulative effect of a change in accounting principle	$.30	$.44
Extraordinary credit	—	.02
Cumulative effect on prior years of a change in accounting principle	.05	—
Net income	$.35	$.46
Pro Forma Amounts, assuming the change in accounting principle is applied retroactively (Note 1):		
Income before extraordinary credit	$273	$443
Net income	$273	$464
Earnings per common share—		
Income before extraordinary item	$.30	$.49
Net income	$.30	$.51

Notes to Financial Statements

(1) Accounting Policies

• • • •

Change in Accounting Principle

In prior years, the Company provided for the estimated cost of claims under a self-administered workmen's compensation program. During 1975, in compliance with Financial Accounting Standards Board Opinion No. 5, the Company changed its policy to provide for only the estimated uninsured cost of reported claims. The cumulative effect on prior years of the change in this accounting principle of $46,400 (net of income taxes) is included in net income for the year ended September 30, 1975. The pro-forma amounts shown on the consolidated statement of operations have been computed assuming retroactive application of the newly adopted accounting principle.

• • • •

THOROFARE MARKETS, INC
Statements of Earnings (Loss) and Retained Earnings

	Fiscal Year Ended August 2, 1975 (52 weeks)	August 3, 1974 (53 weeks)
• • • •		
Earnings (loss) before cumulative effect of a change in accounting principle—($2.05) per common share in 1975; $0.00 in 1974	(2,589)	6
Cumulative effect on prior years (to August 3, 1974) of a change in accounting principle (Note 2) $.34 per common share in 1975; $0.00 in 1974	427	—
Net earnings (loss)—($1.71) per common share in 1975; $0.00 in 1974	(2,162)	6
Pro forma amounts assuming change in accounting is applied retroactively:		
Net loss	$2,589	16
Loss per common share	$2.05	.02

Notes to Financial Statements

(2) Accounting change:

Prior to 1975 the Company established a reserve for certain uninsured risks of future property damage. In March 1975, The Financial Accounting Standards Board, "FASB," issued Statement of

Financial Accounting Standards No. 5, "Accounting for Contingencies." The Statement, effective for fiscal years beginning on or after July 1, 1975, prohibits the charging of future losses to current operations. In accordance with the FASB's recommendation for earlier application, the Company has elected to comply with the new Statement in fiscal 1975, and accordingly the accounting change is reflected as a cumulative adjustment in the 1975 Statement of Earnings (Loss) and Retained Earnings. The accounting change increased the 1975 loss before the cumulative effect of the change by $11,300 ($.01 per share), and the cumulative effect on prior years decreased the 1975 loss by $427,052 ($.34 per share).

UNBILLED REVENUE RECOGNITION

MICHIGAN GAS UTILITIES COMPANY

Consolidated Statement of Income

	for the years ended December 31, 1975	1974
• • • •		
Average shares of common stock outstanding	1,574	1,558
Earnings per share—		
Before prior years' effect of change in method of recognizing revenue (Note 2)	$1.76	$1.46
Nonrecurring adjustment to record prior years' effect of change in method of recognizing revenue (Note 2)	.64	—
Total	$2.40	$1.46
Pro forma amounts as if change in method of recognizing revenue had been applied retroactively (Note 2)—		
Net income after dividends on preferred stock	$2,772	$2,221
Earnings per share	$1.76	$1.43

Notes to Financial Statements

(2) Change in Accounting Method

Prior to 1975, the Company followed the practice of recording as an operating expense the cost of all natural gas delivered to its customers during the month; its customers, however, were billed as meters were read on a cycle basis throughout the month. As a result, at month end, there were volumes of gas which had been delivered and expensed but not billed or recorded as revenue until the following month. Primarily because of the substantial increases in 1975 in the cost of natural gas purchased from the Company's suppliers, which in turn increased the Company's rates, the Company has concluded that this practice no longer provides an adequate matching of revenues and costs. Accordingly, retroactive to January 1, 1975, the Company has adopted the practice of recording unbilled revenue relating to gas delivered to customers during the month but not billed until the following month. This change had the effect of increasing 1975 net income by $448,400 ($.28 per share), before the effect of the change on prior years. The effect of the change on years prior to 1975 amounted to $1,012,600 ($.64 per share) after income taxes of $1,097,000, which nonrecurring adjustment also has been included in 1975 net income in accordance with Opinion No. 20 of the Accounting Principles Board.

ST. JOSEPH LIGHT & POWER COMPANY

Statements of Income

	Years Ended December 31 1975	1974
• • • •		
Weighted average common shares outstanding	1,314	1,256
Amounts per common share:		
Income from continuing operations after preferred dividends	$1.59	$1.42
Discontinued operations	—	(.34)
Cumulative effect on prior years of changing method of recognizing revenues	—	.32
Earnings available for common stock	$1.59	$1.40

Pro forma amounts assuming change in revenue recognition was applied retroactively:		
Income from continuing operations after preferred dividends	$2,085	$1,786
Amount per common share	$1.59	$1.42
Earnings available for common stock	$2,085	$1,356
Amount per common share	$1.59	$1.08

Notes to Financial Statements

3. Change in method of accounting for revenues

In years prior to 1974, the Company followed the policy of not recording revenues relating to service rendered but unbilled at the end of the accounting period since the amount of such unrecorded revenue remained relatively constant from year to year. Due to the accelerating increase in sales levels and costs, the differences between delayed revenue reporting and the recognition of current expenses has become significant. Effective January 1, 1974, the method of accounting was changed to accrue the amount of unbilled revenues for services provided at the end of each accounting period in order to more closely match revenues and costs. This change had the effect of increasing net income for the year ended December 31, 1974 by $180,000 ($.14 per common share) before the cumulative effect for prior periods.

VACATION PAY RECOGNITION

BRANIFF INTERNATIONAL CORPORATION

Statement of Consolidated Income

	Year Ended December 31	
	1975	1974
• • • •		
Earnings per share		
Income before cumulative effect of accounting change	$1.02	$1.30
Cumulative effect of accounting change (less Federal income tax benefit)	(.22)	—
Net income	$.80	$1.30
Pro forma amounts assuming retroactive application of accrual method for vacation pay		
Net income	$20,388	$27,288
Earnings per share	$1.02	$1.36
Weighted average number of shares and equivalents (thousands)	19,953	20,033

Notes to Financial Statements

Note 2 Accrued Vacation Pay

Braniff adopted, as of December 31, 1975, the accounting practice of recording vacation pay as earned rather than as paid which was the prior practice. The new method is the predominant practice and will improve the comparability of the financial statements with those of other companies. The effect of the change in 1975 was to decrease income before cumulative effect of accounting change by $775,000 ($.04 per share). The cumulative effect, to apply retroactively the new method, is shown as a one-time charge against 1975 income in the amount of $4,367,000 (after deferred Federal income tax benefit of $4,033,000), equal to $.22 per share. The pro forma amounts shown in the statement of consolidated income reflect the effect of the retroactive application of the accrual for vacation pay and the related Federal income taxes and investment tax credits.

V

SUBSEQUENT EVENTS

"Subsequent events" are defined by Section 560 of SAS No. 1 as events or transactions that occur subsequent to the balance-sheet date but prior to the issuance of the financial statements and auditor's report and that have a material effect on the financial statements. Subsequent events are of two types; the first type provides evidence of conditions that existed at the date of the balance sheet and the second type provides evidence of conditions that arose subsequent to the balance-sheet date. The first type of subsequent event requires adjustment of the financial statements but the second type does not.

Some events of the second type require disclosure to keep the financial statements from being misleading. According to Section 560, an event may occasionally be so significant that disclosure can best be made by furnishing pro forma financial data or statements that give effect to the event as if it had occurred on the balance-sheet date. If needed, an explanatory paragraph directing the reader's attention to the event and its effects is permitted by Section 560 for inclusion in the auditor's report. However, no reference to the event is to be made in the opinion paragraph of the report (Section 545.03).

Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies," discusses subsequent events as they consist of losses arising after the date of the financial statements that were loss contingencies before the date of the statements. Statement No. 5 in paragraph 11 states that occasionally disclosure of losses of that type may best be made by supplementing the historical financial statements with pro forma financial data that give effect to the loss as if it had occurred at the date of the statements. According to Statement No. 5, it may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements.

Eighteen excerpts from financial statements are presented that illustrate the disclosure of pro forma financial information in conformity with Section 560 or Statement No. 5. Auditors' reports on the statements that direct the reader's attention to the pro forma information or provide clarification of that information are also presented. The examples are classified according to the nature of the subsequent event.

BAKER OIL TOOLS, INC

Notes to Financial Statements

2. Merger with Reed Tool Company:

On November 26, 1975 the Company and Reed Tool Company ("Reed") consummated a merger agreement whereby Reed became a wholly-owned subsidiary of the Company. The merger is the subject of a current investigation by the Antitrust Division of the Department of Justice. The Company has no reason to believe that the merger violates the antitrust law. The principal business of Reed and its subsidiaries is the manufacture and sale of petroleum drilling tools and equipment, mining tools and equipment, truck and tractor mounted earth augers and rotary drilling equipment, and concrete and rock products and balancing hoists. Under the terms of the agreement the Company exchanged approximately 2,326,000 of its common shares for all of the outstanding Reed common shares and reserved approximately 108,000 common shares for issuance in connection with Reed's stock, option and compensation plans. The acquisition will be accounted for as a pooling of interests during 1976 and the financial statements for 1975 and 1974 will be restated to include the accounts of Reed. Below is a summary of the pro forma results of operations of Baker and Reed combined for 1975 and 1974 (1974 amounts consist of Baker's fiscal year ended September 30, 1974 and Reed's fiscal year ended December 31, 1974) and the pro forma condensed combined statement of financial position of the companies as of September 30, 1975:

Operational Data

	1975	1974
Revenues	$509,777,000	$372,989,000
Net income	$ 45,425,000	$ 22,713,000
Net income per share	$3.43	$1.83

Financial Position Data

	September 30, 1975
Current assets	$278,055,000
Property—net	144,426,000
Other long-term assets	15,858,000
Total assets	438,339,000
Less:	
Current liabilities	105,742,000
Long-term debt	94,847,000
Other long-term liabilities	18,780,000
Total liabilities	219,369,000
Shareholder's equity	$218,970,000

The above amounts do not include the effects of conforming the companies' accounting policies for expensing of unfunded prior service costs in connection with their pension plans, which matter is currently under study by Baker and its actuary. The most significant effect of conforming such policies would be to reduce pro forma combined net income for 1975 and 1974 by a maximum of $725,000 during each year and shareholders' equity by a maximum of $6,500,000 at September 30, 1975.

ESMARK, INC.

Notes to Financial Statements

Subsequent events

On November 7, 1975 Esmark finalized the acquisition of the net assets of International Playtex Company (a division of Rapid-American Corporation). The cost of this acquisition was $204 million, consisting of (1) payment to Rapid of $70 million in cash, $100 million of 9% subordinated notes, and 400,000 shares of Class 2 preferred stock valued by the Company at $32 million and (2) direct acquisition costs of $2 million.

The subordinated notes are due from November 1, 1976 to 1982 in annual amounts of approximately $14 million.

The preferred stock, designated Series A, is non-convertible. Each share has one-tenth of a vote, a $6.50 cumulative annual dividend and a $100 liquidation preference. The Company may redeem any or all shares at any time and, after December 1, 1983, will be required to purchase any shares that may be offered; in each case the price is $100 per share plus dividends accumulated and accrued.

On November 7, 1975, the Company obtained an $80 million term bank loan, payable in six annual instalments beginning October 31, 1978, with interest at 120% of prime to 1977 (plus ¼% for 1978 and 1979 and plus ½% thereafter).

This acquisition of Playtex is to be accounted for as a purchase and, since it occurred after Esmark's year end, no amounts as to Playtex are included in Esmark's 1975 consolidated financial statements. The following statements present Esmark's pro forma condensed consolidated financial position at October 25, 1975 as if the acquisition of Playtex and the additional long-term borrowings had occurred on that date and Esmark's pro forma condensed consolidated results of operations for the year ended October 25, 1975 as if the acquisition of Playtex and the additional long-term borrowings had occurred at the beginning of the year. Amounts included for Playtex, which are based on unaudited financial statements as of October 31, 1975 and for the year then ended, reflect the effects of a preliminary allocation of Esmark's purchase cost to Playtex' assets and liabilities and the related effects on Playtex' costs and expenses.

Esmark Pro Forma Condensed Statement of Financial Position October 25, 1975 (Unaudited)	(In millions)
Current assets	$921
Current liabilities	(486)
Working capital	435
Investments and other assets	107
Property and operating facilities	661
Excess of cost over net assets of purchased businesses	59
Total assets less current liabilities	1,262
Long-term debt	(483)
Deferred income taxes	(53)
Other noncurrent amounts	(72)
Net assets applicable to stockholders' equity	$654

Esmark Pro Forma Condensed Statement of Earnings Year ended October 25, 1975 (unaudited)	(In millions, except per share data)
Revenues	$5,071
Costs and expenses	(4,913)
Income taxes	(72)
Net earnings	$86
Net earnings per common share:	
Primary	$5.31
Fully diluted	$4.98

Pro forma combined net earnings above has been reduced $5.5 million ($.35 per share primary and $.33 per share fully diluted) by a one-time charge for the preliminary amount of purchase cost allocated to inventories in excess of Playtex' carrying value, less income tax effects.

GULF & WESTERN INDUSTRIES INC

Notes to Financial Statements

Note B—Acquisition of Businesses

• • • •

In October 1975, the Company acquired the remaining 30% of Kayser-Roth Corporation for 666,174 shares of $2.50 Series D convertible preferred stock when such company was merged into a subsidiary of the Company. The excess of the carrying value of the remaining net assets purchased in this transaction (approximately $27,000,000) over the purchase price will be applied, as described above, against the non-current assets with the balance (approximately $4,000,000) included in intangibles as negative goodwill. Giving pro forma effect to this transaction as if it had occurred at the beginning of the 1974 fiscal year, pro forma net earnings for 1975 would be $144,500,000 ($4.44 per share on a primary basis and $3.54 per share on a fully diluted basis) and for 1974 would be $119,900,000 ($3.37 per share on a primary basis and $2.90, fully diluted).

• • • •

NEWPARK RESOURCES, INC.

Notes to Financial Statements

8. Subsequent Events

In February, 1976 the Company purchased approximately 60% (4,586,935 shares) of the outstanding shares of Elpac, Inc. for $7,000,000 in cash and the assumption of certain obligations of Elpac's selling stockholder including the obligations under option agreements to repurchase 364,168 shares of Elpac's common stock for an aggregate amount of $1,117,504.

The purchase was funded by an interim demand bank loan providing interest at 1% over prime. A long-term loan is being negotiated that provides for interest on the indebtedness at 1% (1½% beginning July 1, 1979) over prime payable quarterly beginning March 31, 1976 to June 30, 1983 with equal quarterly principal payments commencing September 30, 1976 and ending June 30, 1983, secured by the acquired shares of Elpac, Inc. under a pledge agreement. The principal covenants of the loan agreement provide for compensating cash balances equal to 20% of the outstanding principal balance, mandatory prepayment requirements of proceeds from sale of assets, sale of equity and long-term debt and restrictions on incurring debt, disposing of assets, making investments, capital expenditures, payment of dividends and maintaining working capital ratios and debt to equity ratios.

The Company intends ultimately to merge Elpac into Newpark as a wholly owned subsidiary by an exchange of stock, subject to the approval of stockholders of both companies. The Company is in the process of preparing a merger agreement in this regard.

The acquisition will be accounted for as a purchase and as such the Company's financial statements will reflect its interest in the assets, liabilities, and operating results of Elpac, Inc. from February, 1976 forward.

The following summary financial data was taken from the December 31, 1975 audited (by other independent public accountants) financial statements of Elpac, Inc.:

Assets	$51,233,790
Stockholders' equity	$13,419,145
Revenues	$35,215,376
Net income	$ 2,869,282
Net income per share	$ .37

The following unaudited supplemental pro forma information shows the approximate combined results of operations for the year ended December 31, 1975, as though the 60% purchase of Elpac, Inc. was made at January 1, 1975:

		Per share amounts
Income from continuing operations	$2,637,000	$.70
Loss on discontinued operations	(562,000)	(.15)
Net income	$2,075,000	$.55

THE OUTLET COMPANY

Notes to Financial Statements

Note A—Business Combinations

On July 1, 1975, the Company purchased approximately 91% of the issued and outstanding stock of Philipsborn, Incorporated for approximately $1,300,000. The stock purchase was effected through a tender offer made on May 30, 1975, to purchase all the outstanding stock of Philipsborn at $1.50 per share. The Company has continued to purchase stock offered and owns approximately 93% of the outstanding shares as of January 31, 1976. Philipsborn operates a chain of women's apparel stores in the Washington, D.C. metropolitan area.

The acquisition was accounted for by the purchase method and the consolidated statement of earnings for the year ended January 31, 1976, includes the results of operations of Philipsborn from July 1, 1975.

On February 2, 1976, the Company purchased for cash of $16,100,000 the broadcast license and certain assets of television station WLWC, an NBC affiliate, in Columbus, Ohio, from AVCO Broadcasting Corporation, a subsidiary of AVCO Corporation. The call letters of the television station were changed to WCMH effective with the acquisition, which is being accounted for by the purchase method. The purchase price was paid from the $18,000,000 proceeds from long-term notes payable issued on February 2, 1976. Further information with respect to the notes payable, the proceeds of which were also used to repay $1,200,000 of other long-term debt, is included in Note B. Presented below is a condensed consolidated balance sheet showing on a pro forma basis the estimated impact of the acquisition of the television station and the use of the proceeds from the issued long-term notes payable as though these events had been consummated on January 31, 1976.

	As Presented	Adjustments	Pro Forma
Assets			
Current assets	$40,574,191	$ 799,498	$41,373,689
Other assets:			
Prepaid film contracts—noncurrent	996,398	358,405	1,354,803
Miscellaneous intangible and other assets	599,038	2,030,112	2,629,150
Property and equipment:			
Land	4,298,027	578,654	4,876,681
Buildings	7,007,125	1,773,773	8,780,898
Fixtures and equipment	30,264,996	3,168,992	33,433,988
Leasehold improvements	8,130,978		8,130,978
Allowances for depreciation and amortization (deduction)	(25,807,133)		(25,807,133)
Real estate investment—net	5,178,394		5,178,394
Network affiliation agreements, station licenses, and goodwill—net	14,801,597	8,501,456	23,303,053
	$86,043,611	$17,210,890	$103,254,501
Liabilities and Stockholders' Equity			
Current liabilities	$18,989,312	$ 270,210	$19,259,522
Film contracts payable after one year	507,823	140,680	648,503
Long-term debt:			
Notes and Debentures	19,454,552	16,800,000	36,254,552
Mortgages on real estate investment	4,031,930		4,031,930
Deferred credits	1,070,025		1,070,025
Minority interests in subsidiaries	262,711		262,711
Stockholders' equity	41,727,258		41,727,258
	$86,043,611	$17,210,890	$103,254,501

The following summary, on an unaudited pro forma basis, presents approximate condensed combined results of operations of the Company and its subsidiaries as though the above acquisitions had been completed as of February 1, 1974. The revenues and results of operations of the acquired businesses included in the summary are not considered by management to be indicative of anticipated results of the businesses for periods subsequent to the acquisitions by the Company nor are they considered to be indicative of the results of operations which might have been attained had the businesses actually been acquired on February 1, 1974. Significant changes made or to be made in personnel, operating philosophies, and other matters are expected to have favorable impact on operating results before extraordinary credit, particularly affecting Philipsborn. Included in the operating results of the television station for the past two years are corporate general and administrative expenses as allocated by the seller. It is expected that the total of such charges would have been less if the Company had owned the station. In addition, federal income taxes have been provided against the station's pre-tax earnings at the statutory income tax rate of 48% because there was no allocation by the seller of federal income taxes at an actual effective tax rate. With regard to Philipsborn, there was a loss before extraordinary credit prior to acquisition. Operations of the chain experienced a loss trend starting in 1972 which required the closing of several stores. As a result of deterioration of its financial condition, Philipsborn began to experience difficulty in obtaining credit from its suppliers of merchandise. In January 1974, Philipsborn entered Chapter XI bankruptcy proceedings which were terminated in September 1974 by a court order confirming a plan of arrangement. Substantial markdowns taken in the chain's retail merchandise inventories in order to reduce their levels and develop cash, impacted severely on operating results through July 1, 1975. Philipsborn's loss before extraordinary credit included in the summary has been reduced by a federal income tax credit at 48%. The extraordinary credit reflected in the summary below represents the forgiveness of indebtedness under the plan of arrangement. Since the extraordinary credit was not taxable income, no tax was provided. As a result of the foregoing problems, Philipsborn's sales were declining for the period through July 1, 1975. In the summary below, the approximate results of operations of the acquired businesses have been adjusted to give effect to interest costs of the long-term debt obtained to finance the acquisitions, depreciation of the appraised values of tangible assets acquired, and amortization of intangible assets acquired.

	Years Ended January 31, 1976	1975
Net sales and revenue	$133,012,393	$119,528,043
Earnings before extraordinary credit	4,089,815	2,710,225
Net earnings	4,089,815	5,705,951
Earnings per share of Common Stock:		
Before extraordinary credit:		
Primary	$2.69	$1.71
Fully diluted	2.39	1.58
Net earnings:		
Primary	2.69	3.88
Fully diluted	2.39	3.40

• • • •

Note B—Long-Term Debt

Notes and Debentures

• • • •

On February 2, 1976, the Company issued $18,000,000 aggregate principal amount of 10¾% promissory notes to a group of five insurance companies under the terms of a note purchase agreement. The proceeds were used principally to acquire television station WCMH as described in Note A.

The notes are payable in annual installments of $1,125,000 from 1979 to 1994. In addition to interest payments at the stated rate of 10¾%, the Company has agreed to pay to the note holders one payment equal to 42% of the net revenues, as defined, of Station WCMH-TV for any year from January 31, 1984, to January 31, 1994. Based on information presently available, it is estimated that such payment, if made for the year ended January 31, 1984, would approximate $3,800,000. Assuming such a payment in 1984, the imputed interest rate on the notes payable is 11.9%. The amount of $3,800,000 will be recorded as unamortized debt discount and charged to interest expense over the term of the notes in such a manner that will result in the present value of the Company's liability to the note holders being appropriately reflected at the end of each accounting period. Such amount of $3,800,000 will be adjusted during the period to 1984 if changes in the estimated payment become known. In 1984 and subsequent years, until the note holders elect to receive the payment, the liability will be adjusted to the actual amount due based on the net revenues, as defined, of Station WCMH-TV for the applicable year. If the lenders have not previously elected to receive the payment, the Company has agreed to pay the greater of $3,600,000 or 42% of the net revenues, as defined, for the year ended January 31, 1994.

The new note purchase agreement contains covenants requiring the maintenance of certain amounts of working capital and net worth, and sets forth other requirements and limitations relating to amounts of leases and other matters similar to those mentioned above included in currently existing loan agreements with insurance companies. After giving effect to the issuance of the notes and the acquisition of Station WCMH-TV, working capital and net worth exceeded the required amounts by $6,950,000 and $1,488,000, respectively, at January 31, 1976. The amount of retained earnings not restricted under the most limiting of these provisions was approximately $3,096,000 at February 2, 1976.

• • • •

PERTEC CORPORATION

Consolidated Balance Sheets

March 26, 1976 and June 27, 1975

	March 26, 1976 Reflecting CMC acquisition (Notes 1 and 2)	March 26, 1976 Prior to reflecting CMC acquisition Notes 1 and 2)	June 27, 1975
Assets			
Current Assets:			
Cash	$ 4,328	$ 3,401	$ 1,790
Accounts receivable, less reserves of $1,219,000 (Pertec and CMC) and $767,000 in 1976 and $510,000 in 1975	10,593	7,530	8,312
Current portion of installment receivables (Note 3)	5,643	—	—
Inventories (Note 1)	13,604	9,870	11,569
Prepaid expenses	432	206	76
Accumulated income tax prepayments	1,192	1,192	1,255
Total current assets	35,792	22,199	23,002

Installment Receivables, less current portion (Note 3)	9,003	—	—
Rental Equipment and Parts, at cost	13,465	—	—
Property, Plant and Equipment, at cost:			
Land	175	175	175
Buildings and improvements	686	686	669
Equipment and tooling	7,053	5,415	4,657
Furniture and office equipment	795	493	470
Leasehold improvements	535	455	482
	9,244	7,224	6,453
Less—Accumulated depreciation and amortization	3,216	3,216	2,546
	6,028	4,008	3,907
Excess of Cost Over Net Assets Acquired (Note 2)	7,781	454	—
Other Assets	468	248	145
	$72,537	$26,909	$27,054
Liabilities			
Current Liabilities			
Notes payable to banks (Note 4)	$ —	$ —	$ 1,000
Current portion of long-term and subordinated debt (Notes 5 and 6)	1,665	11	10
Accounts payable	4,997	2,550	2,625
Accrued liabilities—			
Payroll and employee benefits	2,824	1,690	1,281
Interest	477	—	—
Product warranty	641	578	722
Other	2,230	1,152	1,401
Income taxes payable	621	586	2,567
Total current liabilities	13,455	6,567	9,606
Long-Term Debt, less current portion (Note 5)	28,099	330	338
Deferred Income Taxes	844	844	534
Deferred Service and Other Income	3,088	—	—
Subordinated Debt, less current portion (Note 6)	3,041	—	—
Commitments and Contingent Liabilities (Note 7)			
Stockholders' Equity (Notes 5, 6 and 8):			
Common stock, $.10 par value— Authorized—10,000,000 shares Outstanding—4,858,000 shares (Pertec and CMC) and 3,056,000 shares, excluding 23,000 shares held in Treasury, in 1976; 2,983,000 shares, excluding 77,000 shares held in Treasury, in 1975, stated at	503	323	315
Additional paid-in capital	11,921	7,259	7,160
Retained earnings	11,636	11,636	9,151
	24,060	19,218	16,626
Less note receivable from officer for purchase of common stock (Note 10)	50	50	50
	24,010	19,168	16,576
	$72,537	$26,909	$27,054

Notes to Financial Statements

(1) Summary of significant accounting policies

• • • •

Principles of Consolidation: The consolidated financial statements include the accounts of Pertec Corporation and all of its subsidiaries. Certain amounts in 1975 have been reclassified to conform with

1976 classifications. These financial statements also give effect to the acquisition of Computer Machinery Corporation ("CMC") discussed in Note 2 and therefore include the March 30, 1976 balance sheet of CMC. Such consolidation also reflects the replacement of certain CMC pre-acquisition debt with the indebtedness created by the new Revolving Credit and Term Loan Agreement discussed in Note 5. All significant intercompany accounts and transactions have been eliminated.

Inventories: Substantially all of the Company's inventories are based on standard costs which include material, labor and burden and are adjusted to the lower of cost (first-in, first-out) or market. Inventories are composed of the following:

	March 26, 1976 Reflecting CMC acquisition	March 26, 1976 Prior to reflecting CMC acquisition	June 27, 1975
		(In Thousands)	
Raw materials and purchased parts	$ 8,508	$5,321	$ 6,863
Work in process	4,508	4,100	4,090
Finished goods	588	449	616
	$13,604	$9,870	$11,569

• • • •

(2) Acquisition of Computer Machinery Corporation

On March 30, 1976, in a transaction accounted for as a purchase, the Company issued 1,802,031 shares of its common stock for all of the outstanding stock of CMC, a manufacturer and lessor of data processing equipment. A value of $5,609,000 representing the total of the fair market value of Pertec stock and direct acquisition costs of $767,000, has been used to determine the purchase price and resulted in an excess of the purchase price over the fair value of the tangible net assets acquired.

The accompanying financial statements include CMC's assets and liabilities acquired except for those assets and liabilities relating to a CMC subsidiary sold on April 30, 1976 for $850,000. Such amount is included in Installment Receivables. The accompanying financial statements do not include CMC's results of operations prior to the acquisition.

(5) Long-term debt

Long-term debt consists of:

	March 26, 1976 Reflecting CMC acquisition	June 27, 1975
	(In Thousands)	
Borrowings under a revolving credit and term loan agreement	$23,275	$ —
9% sale/leaseback financing collateralized by the related leased equipment and rental payments	5,119	—
Other	749	348
	29,143	348
Less current portion	1,044	10
	$28,099	$338

In March, 1976, the Company entered into a Revolving Credit and Term Loan Agreement (the "Loan Agreement") with several banks. Under the terms of the Loan Agreement the Company may borrow up to $37,000,000 through June 30, 1979. Maximum borrowings are determined by a formula that is based on accounts receivable and committed revenues under non-cancellable leases. The unpaid balance at June 30, 1979 must be repaid in 15 equal quarterly installments through March 31, 1983. Substantially all of the Company's assets are pledged as collateral for borrowings under the Loan Agreement. Borrowings bear interest at 120% of prime plus an amount which ranges from ½% to 1½% depending on the amount of borrowings outstanding from time to time and other factors. The Company must also pay annually a commitment fee of ½% on the average daily unused portion of the commitment, a facility fee of ¼% on the total commitment and an agent's fee of ¼% on the average borrowings outstanding.

The Loan Agreement prohibits the payment of dividends and, with limited exceptions, the incurrence of additional indebtedness or encumbrances on assets. The Loan Agreement also contains, among other provisions, requirements for maintenance of working capital, other financial ratios, specified annual increases in earnings, tangible net worth and other tests of financial performance. Failure to comply with the provisions of the Loan Agreement entitles the banks to terminate further loans and to accelerate the maturity of outstanding indebtedness.

Under the Loan Agreement the Company borrowed $23,275,000 at 9.6% effective interest rate on March 30, 1976. These proceeds were used to repay an equal amount of CMC debt then outstanding.

The long-term debt is payable in succeeding fiscal years as follows: 1977—$1,044,000; 1978—$1,002,000; 1979—$1,427,000; 1980—$5,038,000; 1981—$6,394,000; thereafter $14,238,000.

(7) Commitments and contingent liabilities

• • • •

Prior to its acquisition CMC sold its European subsidiaries. In connection with these dispositions, CMC made extensive warranties and representations, as to which CMC's liability for breach is limited in the aggregate to $4,750,000. In connection with the Company's assumption of these obligations, the purchasers agreed that such obligations would expire by June 30, 1976. The Company does not believe that any significant claims will be made under these agreements.

• • • •

Auditors' Opinion

To the Board of Directors and Stockholders of Pertec Corporation

We have examined the consolidated balance sheet of Pertec Corporation (a California Corporation) and subsidiaries as of March 26, 1976 and June 27, 1975 (the March 26, 1976 balance sheet includes the March 30, 1976 consolidated balance sheet of Computer Machinery Corporation and subsidiaries ("CMC") as a result of the acquisition of CMC on that date by Pertec Corporation in a transaction accounted for as a purchase, as further described in Note 2), and the related consolidated statements of income (which exclude any operations of CMC as such dates are prior to acquisition), stockholders' equity and changes in financial position for the nine months ended March 26, 1976 and the year ended June 27, 1975. We also examined the consolidated balance sheet of Pertec Corporation and subsidiaries as of March 26, 1976 prior to reflecting the acquisition of CMC. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Pertec Corporation and subsidiaries as of March 26, 1976 (both prior to and after reflecting the acquisition of CMC) and June 27, 1975, and the results of their operations and the changes in their financial position for the nine months ended March 26, 1976 and the year ended June 27, 1975, in conformity with generally accepted accounting principles consistently applied during the periods.

REICHHOLD CHEMICALS, INC.

Notes to Financial Statements

(2) Acquisitions

In January, 1976, the Company acquired all the outstanding stock of Standard Brands Chemical Industries, Inc. (SBCI), a wholly-owned subsidiary of Standard Brands Incorporated. The purchase price was approximately $23,000,000 of which $2,400,000 was paid in December, 1975, $17,600,000 was paid at the closing in January, 1976, and $3,000,000 is payable in three equal installments plus interest at 7½% a year due January, 1977, 1978, and 1979. To finance the acquisition the Company has obtained short-term bridge loans of $20,000,000 which it intends to convert to long-term financing at 10⅜%. SBCI, primarily a manufacturer of styrenebutadiene, acrylonitrile, and polyvinyl acetate emulsions, sells a significant amount of its products to the carpet and paper industries.

The acquisition will be accounted for as a purchase; results of operations of SBCI will be included in those of the Company for periods subsequent to the date of acquisition. Had the acquisition taken place in December, 1975, and assuming the issuance of long-term debt, pro forma financial position at December 31, 1975 (unaudited) would be:

	(In Thousands)
Current assets	$121,974
Investments in associated companies and joint ventures	10,276
Cost in excess of net assets of companies acquired	5,159
Property, plant and equipment—net	144,219
Other assets	1,392
	$283,020

Current liabilities	$ 58,582
Deferred credits	12,761
Long-term debt	82,042
Stockholders' equity	129,635
	$283,020

Combined results of operations for 1975 would be:

	(In Thousands)
Net sales—RCI	$407,858
—SBCI (unaudited)	44,744
	$452,602
Net income—RCI	$ 15,948
—SBCI (unaudited)	361
	$ 16,309
Net income per share	$2.37

The sales and net income of SBCI exclude amounts relating to a division sold prior to the acquisition by RCI. No effect has been given to the estimated net increase in depreciation and interest expense (aggregating approximately $1,400,000, net of taxes) assuming the acquisition had taken place January 1, 1975. Management believes that the results of operations of SBCI for the year ended December 31, 1975 are not indicative of anticipated future results because of significant changes made or to be made in the acquired business.

The Company is currently negotiating with its founder, H. H. Reichhold, to acquire for approximately $6,000,000 a group of European companies in which Mr. Reichhold has a majority interest. The European companies' operations are similar to those of the Company.

RESERVE OIL AND GAS COMPANY

Notes to Financial Statements

10. Acquisition of Basin Petroleum Corp.

In January, 1976, Reserve purchased all the outstanding stock of Basin Petroleum Corp. (Basin) for a consideration of approximately $40,000,000 consisting of cash of $34,000,000 (see Note 6) and warrants valued at $6,000,000 to purchase 1,605,340 shares of Reserve's common stock at $10.00 per share. Net assets of Basin at December 31, 1975 were $15,000,000 (unaudited). Unaudited revenues and net income of Basin for the twelve months ended December 31, 1975 were $23,000,000 and $3,000,000, respectively.

Assuming the acquisition had been effective at the beginning of 1975, Reserve's net income for 1975 would not have been materially affected after applying pro forma adjustments to reflect additional depletion and depreciation resulting from recording Basin's property and equipment at fair value; additional amortization of cost in excess of net assets acquired; additional interest expense on funds borrowed to finance the acquisition and related income taxes.

VESELY COMPANY

Notes to Financial Statements

(2) Acquisition

On October 1, 1974, the Company acquired the net assets and business of Bilancio-Simeri Enterprises, Inc., a travel trailer and motor home manufacturer located in Elkhart, Indiana, for $873,000, consisting of $400,000 in cash and $473,000 in 4% notes payable due in annual installments until January, 1977 (see Note 4). The transaction was accounted for by the purchase method of accounting.

The net assets acquired are summarized as follows:

Plant and equipment	$734,884
Excess of cost over fair value of tangible net assets acquired	50,717
Other assets—Cash surrender value of life insurance less policy loans of $60,468	32,179
Excess of current assets over current liabilities	182,200
Long-term obligation assumed	(126,606)
Net assets acquired	$873,374

The following table summarizes, on an unaudited pro forma basis, and after applying pro forma adjustments, the combined results of operations of the Company and Bilancio-Simeri for the year ended September 30, 1974, as though the acquisition had been made as of October 1, 1973:

	1974
Net sales	$15,315,000
Net income	102,000
Net income per share	$.08

DIVIDEND PAYMENT

CANADA SOUTHERN RAILWAY COMPANY

Notes to Financial Statements

Note 7—Declaration of Dividend Subsequent to December 31, 1975:

On March 29, 1976, the Company declared a dividend of $60 (U. S.) per share which was paid on April 23, 1976 to shareholders of record at April 9, 1976 (except as noted below).

The following condensed pro forma balance sheet is presented to reflect the effect of the declaration and payment of the dividend on the Company's financial condition at December 31, 1975 as it would have appeared had these transactions occurred on that date.

	Historical	Effect of declaration and payment of dividend	Pro forma
Assets			
Current assets	$11,879,800	($8,862,600)	$ 3,017,200
Investment in affiliate	627,100		627,100
Other assets	2,756,300		2,756,300
Properties	36,060,100		36,060,100
	$51,323,300	($8,862,600)	$42,460,700
Liabilities and Shareholders' Equity			
Current liabilities	$ 263,200		$ 263,200
Deferred income taxes	1,429,700		1,429,700
Long-term debt	25,506,600		25,506,600
	27,199,500		27,199,500
Shareholders' equity:			
Capital stock	15,000,000		15,000,000
Donations and grants	11,500		11,500
Retained income	9,112,300	($8,862,600)	249,700
	24,123,800	(8,862,600)	15,261,200
	$51,323,300	($8,862,600)	$42,460,700
Shareholders' equity per share	$160.83	($59.09)	$101.74

Pursuant to a stipulated agreement dated March 10, 1976 among Penn Central, Michigan Central, ConRail and the Company's then directors, ConRail agreed that Penn Central and Michigan Central would be entitled to be paid the dividend on the 107,163 shares of the Company transfered by them to ConRail. Pursuant to an escrow agreement, dated April 2, 1976, among the Company, Penn Central, Michigan Central and First Pennsylvania Bank, N. A., as escrow agent, the $60 dividend (net of Canadian 15% non-resident withholding tax) on the shares formerly owned by Penn Central and Michigan Central was paid to the escrow agent. Funds may be withdrawn from the escrow account only upon order of the court supervising the Penn Central and the Michigan Central reorganization proceedings. The agreement further provides that the payment to the escrow agent shall be without prejudice to, and shall not be deemed a waiver of any right of, offset which the Company may ultimately establish by reason of claims against Penn Central or Michigan Central. The Company and its counsel are presently considering the nature and extent of such claims. To the extent such claims and right of offset are established, the Company shall be entitled to reclaim funds paid to the escrow agent as if the same had been asserted upon declaration of the dividend. To the extent that the right of offset is exercised and upheld the pro forma information above would have to be adjusted accordingly.

Auditor's Opinion

To the Board of Directors and Shareholders
The Canada Southern Railway Company

We have examined the consolidated balance sheet of The Canada Southern Railway Company (approximately 71% of the outstanding stock of which is owned as of April 1, 1976 by Consolidated Rail Corporation and which was beneficially owned prior to that date by Penn Central Transportation Company, Debtor) as of December 31, 1975 and 1974 and the related consolidated statements of income, retained income and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of cash and securities owned by correspondence with the depositaries.

The accompanying consolidated financial statements are prepared on a going-concern basis with the Company's investment in properties carried forward at cost on the assumption that, under the lease agreement described in Note 2 to the consolidated financial statements, such properties will continue to generate rental income over the life of the 999-year lease and that the properties will be returned to the Company upon termination of that lease. As more fully described in Note 2 to the consolidated financial statements, in 1903 the company leased substantially all its railway properties to The Michigan Central Railroad Company, Secondary Debtor, which in turn had transferred all its rights and obligations to its parent, Penn Central Transportation Company, Debtor. Both Michigan Central and Penn Central have filed for reorganization under Section 77 of the U.S. Bankruptcy Act. On April 1, 1976, the interests of Michigan Central as lessee and Penn Central as sublessee of the Company's rail properties were transferred to the Consolidated Rail Corporation pursuant to the Regional Rail Reorganization Act of 1973, as amended, and the Final System Plan promulgated by the United States Railway Association. Penn Central has challenged these transfers as unlawful. The resolution of the legality of the transfers and the ability of the lessee (as finally determined) to continue to perform under the lease agreement are matters which we are unable to evaluate currently.

In addition, as described in Notes 3 and 5 to the consolidated financial statements, the accompanying financial statements have been prepared on the basis of certain interpretations concerning the rights and responsibilities of the lessor and lessee under the terms of the lease. As more fully described in Note 3(c), the legal status of the responsibilities of Michigan Central and Penn Central with respect to capital cost allowances and depreciation deductions are matters currently in dispute. Further, as more fully described in Note 3(a), the Company is reviewing certain of the current interpretations relating to the ownership and use of proceeds of sale of leased properties and the responsibilities as to additions and betterments of such properties. The effect, if any, on the consolidated financial statements of the ultimate determination of the rights and responsibilities of the lessor and lessee under the terms of the lease cannot be evaluated at this time.

As described in Note 9 to the consolidated financial statements, Canadian tax authorities have raised certain issues with respect to the Company's tax returns for the years 1971-1973. The ultimate effect, if any, on the consolidated financial statements of the resolution of these matters cannot be evaluated at this time.

As described in Note 7 to the consolidated financial statements, on March 29, 1976 the Company declared a dividend of $60 (U.S.) per share which was paid to shareholders on April 23, 1976. A substantial part of the Company's unrestricted investments in marketable securities and temporary cash investments were liquidated in April 1976 to provide the necessary cash for payment of the dividend.

As described in Note 6, commencing in 1976 the Company will be required to change its accounting policy with respect to the translation of foreign currency financial statements and to restate prior years' consolidated financial statements.

As described in Note 8 to the consolidated financial statements, at December 31, 1975 the Company changed its method of accounting for marketable equity securities.

In our opinion, subject to (a) the ability of the lessee (as ultimately determined) to continue to perform under the lease agreement as discussed in the second paragraph above or, in the event of nonperformance, the ability of the Company to otherwise recover the carrying value of its investment in properties, and (b) the effect, if any, of the resolution of the matters discussed in the third and fourth paragraphs above, the accompanying consolidated financial statements examined by us present fairly the financial position of The Canada Southern Railway Company and its subsidiary at December 31, 1975 and 1974, the results of their operations and the changes in financial position for the years then ended, in conformity with (a) the legal interpretations described in Notes 3 and 5 to the consolidated financial statements and (b) generally accepted accounting principles consistently applied during the period, except for the change, with which we concur, in the method of valuing marketable securities referred to in the immediately preceding paragraph above.

INCURRENCE OF DEBT FOLLOWED BY REDEMPTION OF STOCK

TRANSOHIO FINANCIAL CORPORATION

Notes to Financial Statements

12. Event Subsequent to December 31, 1975

On January 26, 1976, the Company purchased 972,888 shares of its common stock for treasury at $7.125 per share. Accordingly, consolidated shareholders' equity was reduced by the total purchase cost of $6,931,827 and book value was increased by $2.59 per outstanding common share. The Company obtained a demand bank loan of $5,000,000 to finance the major portion of the purchase cost with the intention of converting the demand loan into a bank term loan. The demand loan bears interest at 1¾% over prime with no requirement for compensating balances. Assuming the term loan will bear the same interest rate and assuming the purchase of the shares and the related borrowing had occurred at the beginning of 1975, pro forma net income per share would have been $.41 greater than reported in the accompanying consolidated statement of income.

ISSUANCE OF STOCK FOLLOWED BY REDEMPTION OF DEBT

AUSTRAL OIL COMPANY INCORPORATED

Notes to Financial Statements

(3) Agreement With The Superior Oil Company—

Pursuant to an agreement with The Superior Oil Company ("Superior") dated January 20, 1975, the Company, on January 27, 1975, (a) sold 835,700 shares of its common stock to Superior for a cash consideration of $14,207,000 ($17 per share); (b) retired $13,000,000 of its indebtedness to banks; and (c) issued to Superior a warrant to purchase 240,000 shares of the Company's common stock at $25 per share during the period January 27, 1977 to January 27, 1982. The agreement provides that (a) the Company, at its option exercisable January 27, 1977, may borrow from Superior up to $6,000,000 for five years at the New York prime interest rate; (b) Superior may exercise the warrant by exchanging the Company's note if the Company has borrowed against the $6,000,000 loan commitment and/or with cash if the Company has borrowed less than the full amount available under the loan commitment; and (c) the Company will not issue any preferred stock until the aforementioned warrant is exercised or has expired.

Presented below is a pro forma, condensed statement showing the effect of such transaction on the Company's financial position—

	December 31, 1974 Amounts as Reported	Effect of Superior Transaction	Pro Forma Amounts after Superior Transaction
Current Assets	$ 6,605,000	$ 1,207,000	$ 7,812,000
Less—			
Current maturities on long-term debt	(1,493,000)	1,000,000	(493,000)
Other current liabilities	(1,580,000)	—	(1,580,000)
Working Capital	$ 3,532,000	$ 2,207,000	$ 5,739,000
Property and Equipment and Other Assets	48,895,000	—	48,895,000
Long-Term Debt	(16,775,000)	12,000,000	(4,775,000)
Other Liabilities and Deferrals	(8,052,000)	—	(8,052,000)
Stockholders' Investment	$27,600,000	$14,207,000	$41,807,000

READING & BATES OFFSHORE DRILLING COMPANY

Balance Sheet

	1975	September 30, Pro forma (Note A) 1975	1974
Assets			
Current assets:			
Cash:			
In banks (Note B)	$ 9,569		$ 10,206
Certificates of deposit	522		1,500
Accounts and notes receivable:			
Trade (Note B)	32,284		27,957
Carver-Dodge International Partnership (Note I)	2,778		—
50%-owned company (Note A)	2,051		—
Other	756		997
Costs and estimated earnings in excess of billings on uncompleted pipeline construction contracts (Note A)	2,851		860
Inventories, principally materials and supplies, at lower of average cost or market	11,891		7,488
Prepaid expenses	9,010		5,275
Deferred income taxes (Notes A and D)	—		1,486
Total current assets	71,716	$ 71,716	55,771
Investments and advances:			
Investment in joint ventures and 50%-owned company, at cost plus equity in undistributed earnings (Notes A and E)	2,049		3,694
Other companies, at cost	164		232
Total investments and advances	2,213	2,213	3,927
Property and equipment—at cost (Notes A and B):			
Drilling equipment	192,874		161,967
Oil and gas properties:			
Producing	121,733		91,556
Nonproducing	7,400		5,462
Construction equipment	11,309		14,688
Other	9,566		14,273
Total	342,885		287,948
Less accumulated depreciation, depletion and amortization	93,008		80,883
Net property and equipment	249,876	249,876	207,064
Deferred charges and other assets:			
Long-term notes receivable (Note B)	633	633	1,900
Receivable from sale of common stock in a public offering (Note A)	17,690	—	—
Drilling unit in progress under sale and leaseback agreement	—	—	18,642
Other	3,646	3,646	2,943
Total deferred charges and other assets	21,969	4,279	23,485
Total Assets	$345,776	$328,086	$290,249

Liabilities and shareholders' equity			
Current liabilities:			
Long-term debt due within one year (Note B)	$ 11,187		$ 15,714
Accounts payable—trade	29,087		13,001
Billings in excess of costs and estimated earnings on uncompleted pipeline construction contracts (Note A)	460		82
Accrued liabilities	11,197		8,331
Accrued income taxes (Notes A and D)	4,134		1,009
Deferred income taxes (Notes A and D)	480		—
Total current liabilities	56,547	$ 56,547	38,138
Long-term debt (Note B)	131,722	114,032	131,532
Deferred income (Note A)	2,501	2,501	1,086
Deferred income taxes (Notes A and D)	13,666	13,666	13,665
Minority interest in subsidiaries (Note I)	—	—	5,142
Commitments (Notes B and F)			
Shareholders' equity (Notes A, B, G and H):			
Class A, cumulative, convertible capital stock, no par, $8 stated value, $12 liquidating value, authorized and issued 7,950 shares (8,948 in 1974)	63		71
Preferred Stock, $1 par value, authorized 1,720,000 shares:			
$5 noncumulative, convertible, Second Series, $100 liquidating value, issued 25,000 shares	25		25
Common Stock, 20¢ par value, authorized 10,000,000 shares, issued 7,244,285 shares (6,242,672 in 1974)	1,448		1,248
(Liquidation preference of Class A and Preferred Stock is $2,595,400 at September 30, 1975 and $2,607,364 at September 30, 1974)			
Capital in excess of par value	72,595		55,221
Retained earnings	70,462		47,893
Less stock option notes receivable and unearned Career Stock Plan compensation	(3,209)		(3,776)
Common Stock in treasury—at cost, 2,500 shares	(46)		—
Total shareholders' equity	141,338	141,338	100,683
Total liabilities and Shareholders' Equity	$345,776	$328,086	$290,249

Notes to Financial Statements

Note (A) Summary of Significant Accounting Policies

• • • •

Pro Forma Statements—The Company sold 1,000,000 shares of Common Stock in a public offering in September 1975. Proceeds of $17,690,000 from such sale were received in October 1975 and were used to repay that amount of the Company's bank borrowings. A pro forma balance sheet is presented to show the effect of the receipt of the proceeds from the sale and the application of the proceeds to reduce bank borrowings in October 1975 as if they had occurred at September 30, 1975. The following table compares amounts shown on the statement of income with pro forma amounts which show the results of operations during 1975 assuming the Common Stock had been issued at April 30, 1975, the date of issue of the debt retired.

	As reported	Pro forma
Net income	$24,884,826	$25,398,975
Earnings per common share and common equivalent share	$4.03	$3.86
Earnings per common share—assuming full dilution	$3.73	$3.59

• • • •

(B) Long-Term Debt

	September 30, 1975		September 30, 1975	
	Long-term	Current	Long-term	Current
	(As reported)		(Pro forma)	
Bank loan payable in quarterly installments of $5,000,000 until March 31, 1980 (a)(b)(h)	$ 87,690,000	$ 7,310,000	$ 70,000,000	$ 7,310,000
9¼% bonds payable $1,000,000 semiannually until April, 1986 (b)(c)(d)	20,000,000	2,000,000	20,000,000	2,000,000
5½% Convertible Subordinated Debentures due December 1, 1988 (b)(e)	13,787,000	—	13,787,000	—
Bank loan payable $832,500 semiannually from January, 1975 until July 1977 with interest at ⅝ of 1% above prime	1,665,000	1,665,000	1,665,000	1,665,000
6% Export-Import Bank loan payable $999,000 semiannually from July, 1977 until July, 1979	4,995,000	—	4,995,000	—
Advances on Export-Import Bank loan payable $212,948 semiannually from September, 1976 until September, 1986 (f)	3,585,589	212,948	3,585,589	212,948
	$131,722,589	$11,187,948	$114,032,589	$11,187,948

• • • •

Current maturities of $17,690,000 which were paid with the proceeds from the sale of Common Stock in October 1975 are shown as long-term in the balance sheet at September 30, 1975. Pro forma amounts give effect to the payment of debt in October 1975 as if it had occurred at September 30, 1975.

• • • •

Auditors' Opinion

To the Board of Directors and Shareholders
Reading & Bates Offshore Drilling Company

We have examined the balance sheet of Reading & Bates Offshore Drilling Company and consolidated subsidiaries as of September 30, 1975, and the related statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have also examined the pro forma balance sheet which is based on the aforementioned balance sheet and gives effect to the receipt of proceeds from sale of Common Stock and retirement of debt in October 1975 as described in Note A to financial statements. We previously examined and reported upon the financial statements of the Company and consolidated subsidiaries for the year ended September 30, 1974.

In our opinion, (a) the accompanying balance sheet and statements of income, shareholders' equity and changes in financial position present fairly the financial position of Reading & Bates Offshore Drilling Company and consolidated subsidiaries at September 30, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for nonproducing oil and gas properties as described in Note A to the financial statements, have been applied on a consistent basis, and (b) the accompanying pro forma balance sheet presents fairly the financial position of the Company and consolidated subsidiaries as it would have appeared at September 30, 1975 had the proceeds from the sale of Common Stock described in Note A been received and the related debt retired at that date.

REDEMPTION OF COMMON STOCK AND DEBT

ELGIN NATIONAL INDUSTRIES, INC.

Consolidated Balance Sheet

	December 31, 1975 Pro Forma (Note 15) (Unaudited)	December 31	
		1975	1974
Assets			
Current assets:			
Cash	$ 1,507	$ 2,883	$ 1,891
Short-term investments	—	10,249	5,700
Accounts and notes receivable (Note 2)	27,368	27,368	19,466
Receivable—sale of companies (Note 4)	1,387	1,387	1,979
Inventories (Note 3)	11,337	11,337	14,992
Prepaid expenses and other current assets	1,052	1,052	941
Total current assets	$42,653	$54,278	$44,971
Property, plant and equipment (Note 5)	$ 6,220	$ 6,220	$ 4,384
Other assets:			
Receivable—sale of companies (Note 4)	$ 4,761	$ 4,761	$ 6,034
Excess of cost over net assets acquired (Note 1)	6,209	6,209	4,560
Unamortized debenture expenses	421	551	674
Other	496	496	210
	$11,888	$12,018	$11,480
	$60,761	$72,517	$60,836
Liabilities and shareowners' investment			
Current liabilities:			
Loans from financial institutions	$ 1,575	$ —	$ —
Trade notes and loans payable	73	73	1,943
Accounts payable	9,314	9,314	7,392
Accrued liabilities and taxes (Note 2)	13,305	13,322	8,212
Current portion of long-term debt (Note 15)	1,549	4,467	589
Total current liabilities	$25,817	$27,177	$18,136
Long-term debt (Note 8)	$ 9,943	$ 9,943	$12,237
Contingent liabilities (Note 14)			
Shareowners' investment (Notes 8 and 10):			
Preferred stock, par value $1 per share; authorized 1,000,000 shares; none issued	$ —	$ —	$ —
Common stock, par value $1 per share; authorized 5,000,000 shares; issued 1,206,476 shares in 1975, 1,206,358 in 1974	1,206	1,206	1,206
Paid-in capital	34,732	34,732	34,727
Retained earnings (deficit)	1,106	1,327	(3,601)
	$37,045	$37,266	$32,332
Less:			
Cost of 100,608 shares and pro forma 400,608 shares of common stock in treasury	12,044	1,869	1,869
	$25,000	$35,396	$30,462
	$60,761	$72,517	$60,836

Statement of Consolidated Income

	Year Ended December 31,		
	1975 Pro Forma (Note 15) (Unaudited)	1975	1974
Revenues:			
Net sales and construction revenue	$119,712	$119,712	$73,613
Interest income	412	781	1,104
Gain on purchase of bonds for sinking fund requirements	363	363	184
	$120,488	$120,857	$74,903
Cost and expenses:			
Cost of sales and cost of construction	$103,215	$103,215	$62,802
Selling, general and administrative expenses	11,432	11,432	9,090
Interest expense	1,208	1,009	1,105
	$115,856	$115,656	$72,998
Income of continuing operations before taxes on income	$ 4,632	$ 5,201	$ 1,904
Tax provision on above income (Note 6)	2,387	2,661	1,026
Income of continuing operations	$ 2,245	$ 2,540	$ 878
(Loss) on disposal of discontinued operations net of income tax benefits of $41,000 (Note 4)	$ —	$ —	$ (44)
Income before extraordinary items	$ 2,245	$ 2,540	$ 834
Extraordinary items:			
Income tax benefit from utilization of loss carrry forward (Note 6)	$ 2,115	$ 2,389	$ 924
Gain from liquidation of the pension plan and trust (Note 9)	—	—	158
	$ 2,115	$ 2,389	$ 1,082
Net income	$ 4,360	$ 4,929	$ 1,917
Primary income per share (Note 12):			
Income of continuing operations	$2.79	$2.30	$ .79
(Loss) on disposal of discontinued operations	—	—	(.04)
Income before extraordinary items	$2.79	$2.30	$ .75
Extraordinary items	2.62	2.16	.97
Net income	$5.41	$4.46	$1.72
Fully diluted income per share (Note 12):			
Income of continuing operations	$2.70	$2.25	$ .79
(Loss) on disposal of discontinued operations	—	—	(.04)
Income before extraordinary items	$2.70	$2.25	$ .75
Extraordinary items	2.53	2.11	.97
Net income	$5.23	$4.36	$1.72

Notes to Financial Statements

15. Post balance sheet event:

On March 2, 1976, the Company announced it had called the $2,918,000 of 6⅞% convertible debentures for redemption at 103.125% and intended to make an offer to purchase up to 300,000 shares of its common stock for cash at $27.50 per share. The debentures have therefore been classified among current liabilities. Subsequently the Company announced on March 24, 1976, that it had revised its tender offer to purchase 300,000 shares of its common stock for cash at $32.50 per share. (If more than 300,000 shares are tendered, Elgin may elect but is not required to purchase all or a part of such excess.) The pro forma column of the accompanying consolidated balance sheet gives effect to both of these proposed transactions, assuming brokers' fees and other costs totaling $425,000 will be incurred. (The loss of $221,169 on retirement of the debentures which has been charged to retained earnings in the pro forma balance sheet will actually be a charge against 1976 earnings, less any tax benefits which might result from the loss.) The pro forma column of the accompanying statement of consolidated income for 1975 gives effect to the elimination of interest expense and debt discount amortization on the 6⅞% debentures to be retired and to the loss of interest income and to interest expense on borrowed funds (both estimated at 6%) on funds used to redeem the debentures and common stock. The average number of shares outstanding has been reduced by 300,000 in the computation of pro forma primary and fully-diluted income per share for 1975. The number of shares which would have resulted from conversion of the 6% debentures has also been deducted in the computation of pro forma fully-diluted income per share for 1975.

ISSUANCE OF PREFERRED STOCK AND NOTES

CENTRAL NATIONAL BANK IN CHICAGO
Consolidated Statement of Condition

Assets

	December 31 1975	December 31 1974
Cash and due from banks—non interest bearing	$ 64,129	$ 79,253
Due from banks—interest bearing	7,500	38,600
Funds sold	15,850	10,600
Investment securities		
United States Treasury	112,455	37,175
United States Government agencies and corporations	24,223	20,170
States and political subdivisions	13,110	46,796
Other	3,687	3,676
Trading account securities	3,085	5,453
Loans (net of reserve for loan losses of $6,526,000 in 1975 and $4,392,000 in 1974)	386,144	453,868
Premises and equipment	6,072	6,557
Customers' acceptance liability	4,649	7,073
Accrued interest and accounts receivable	11,450	14,231
Other assets	6,097	2,139
Total assets	$658,451	$725,591

Liabilities and Shareholder's Equity

	Pro Forma As of December 31, 1975 —See Note Q	December 31 1975	December 31 1974
Deposits			
Demand		$219,786	$273,867
Savings		60,256	57,625
Time		222,025	201,707
Foreign branch		32,718	69,403
Total deposits		534,785	602,602
Funds purchased	$75,456	83,456	66,300
Notes payable—short-term		1,979	4,135
Acceptances outstanding		4,649	7,073
Accrued interest, taxes and other expenses		4,743	5,483
Other liabilities		625	1,169
		630,237	686,762
Long-term debt—Subordinated capital notes	14,313	10,313	10,813
		640,550	697,575
Shareholder's equity			
Common stock—$10 par value:			
Authorized, issued and outstanding 1,139,000 shares (1,339,000 shares on a pro forma basis)	13,390	11,390	11,390
Surplus	14,850	12,850	12,850
Retained earnings (deficit)	(6,339)	(6,339)	3,776
Total shareholder's equity	21,901	17,901	28,016
Total liabilities and shareholder's equity		$658,451	$725,591

(Parent Company Only)

Statement of Condition

Assets

	Pro Forma As of December 31, 1975 —See Note Q	December 31 1975	December 31 1974
Cash and certificate of deposit		$ 528	$ 858
Loans purchased as a participation from the Bank (net of reserve for loan losses of $100,000 in 1975)		5,097	11,494
Advance to Rawleigh, Moses & Co. Inc.*	$ 6,366	8,166	8,449
Investment in capital stock of wholly-owned subsidiaries (principally the Bank)—at equity in underlying net assets*	26,809	21,009	32,654
Other assets		41	28
Total assets		$34,841	$53,483

Liabilities and Shareholders' Equity

	Pro Forma As of December 31, 1975 —See Note Q	December 31 1975	December 31 1974
Notes payable—short-term	$11,313	$13,313	$20,143
Accrued expenses and other liabilities		439	442
Term note (1975—8¼%; 1974—11¼%)		4,000	4,000
Total liabilities		17,752	24,585
Shareholders' equity			
Preferred stock—without par value:			
Authorized 200,000 shares; none issued (60,000 shares on a pro forma basis)	6,000	—	—
Common stock—$10 par value:			
Authorized 1,500,000 shares; issued and outstanding—1,109,604 shares	11,096	11,096	11,096
Capital surplus	15,040	15,040	15,040
Retained earnings (deficit)—including retained earnings (deficit) of subsidiaries: 1975—$(7,403,000); 1974—$2,769,000	(9,047)	(9,047)	2,762
Total shareholders' equity	23,089	17,089	28,898
Total liabilities and shareholders' equity		$34,841	$53,483

*Eliminated in consolidation.

Finance Subsidiaries of Central National Chicago Corporation

Combined Balance Sheet

Assets

	Pro Forma As of December 31, 1975 —See Note Q	December 31 1975	December 31 1974
Cash		$ 4,570	$ 4,547
Investment securities		7	7
Loans (net of reserve for loan losses of $880,000 in 1975 and $693,000 in 1974)		24,326	34,344
Premises and equipment		95	122
Accrued interest and accounts receivable		407	727
Cost in excess of net tangible assets of the business acquired		1,171	1,306
Other assets		72	216
Total assets		$30,648	$41,269

Liabilities and Shareholder's Equity

Notes payable to:			
Banks		$11,060	$19,088
Parent company	$6,366	8,166	8,449
Accrued interest, taxes and other expenses		803	899
Client reserves		5,079	3,511
Other liabilities		2,609	4,860
Total liabilities		27,717	36,807
Shareholder's equity			
Common stock:			
Rawleigh, Moses & Co., Inc.—$1 par value: Authorized, issued and outstanding 1,000 shares	1	1	1
Union Realty Mortgage Co., Inc.—$1 par value: Authorized, issued and outstanding 2,000,000 shares	2,000	2,000	2,000
Capital surplus	3,924	2,124	2,124
Retained earnings (deficit)	(1,194)	(1,194)	337
Total shareholder's equity	4,731	2,931	4,462
Total liabilities and shareholder's equity		$30,648	$41,269

Notes to Financial Statements

Note Q—Subsequent Events:

The Company and the Bank consummated agreements with various parties during March, 1976, under the terms of which the Company sold 60,000 shares of 6% Cumulative Participating Convertible Series A Preferred Stock to certain major shareholders for an aggregate consideration of $6,000,000 and the Bank issued $4,000,000 of senior subordinated capital notes (see Note J). The $6,000,000 received by the Company from the sale of the preferred stock was used as follows—$4,000,000 was invested in common stock of the Bank; $1,800,000 was invested in Rawleigh, Moses & Co., Inc., its factoring subsidiary, which used the funds to reduce advances from the Company; and $200,000 was retained by the Company for general corporate purposes.

Preferred stock dividends are to be payable quarterly, on a cumulative basis, at 6% per annum of its stated value ($100 per share), plus participation at a rate of 25¢ per share for each 5¢ dividend declared on the Company's common stock to a maximum quarterly participation of $1 per share. The terms of issuance provided for: (1) redemption, at the option of the Company, at premiums ranging from $2.50 if redeemed on or prior to December 31, 1976 to $10.00 if redeemed after December 31, 1978; (2) conversion, at the option of the shareholder, into the Company's common stock at a rate of $9 per share; (3) prohibition of the payment of any dividends on common stock unless all cumulative dividends shall have been paid on the preferred stock; and (4) use of the proceeds, to the extent of $4,000,000, to purchase additional capital stock of the Bank. The preferred stock has no voting rights.

The 1974 subordinated capital note agreement under which the Bank borrowed $10,813,000 was amended and the terms of such agreement have been combined into a restated loan agreement dated March 30, 1976 which also provides for the issuance of $4,000,000 of senior subordinated capital notes. The terms of the restated loan agreement require combined repayment on the senior and junior notes in 44 consecutive quarterly installments commencing on March 31, 1976 with maturities during the succeeding five years as follows: 1976—$500,000; 1977—$1,250,000; 1978—$1,250,000; 1979—$1,400,000; and 1980—$1,400,000. To the extent that the Company declares cash dividends on its common stock during the term of the loan agreement, the Bank would be required to prepay installments in an amount equivalent to a variable percentage of such cash dividends. Interest is payable quarterly at a rate of 1%, subject to maximum upward adjustment of an additional 1% under certain conditions, above the minimum commercial rate of the lenders. Principal and interest on the junior subordinated capital notes are subordinate in right and time of payment to the senior subordinated capital notes. The senior and junior notes are subordinated in right of payment to claims of depositors and certain other creditors of the Bank. The terms of the restated loan agreement provide, among other things, for a limitation on the amount of debt which may be incurred by the Bank, except for debt (as defined) which may arise in the ordinary course of business and for restrictions on the amount of dividends which the Bank may declare in any year.

Note J—Junior Subordinated Capital Notes:

The Bank, during 1974, issued subordinated capital notes and concurrently prepaid the $5,813,000 then outstanding under the subordinated capital note due June 30, 1982. The notes are subordinated in right of payment to claims of depositors and certain other creditors of the Bank. The agreement relating to these capital notes was amended on March 30, 1976 (see Note Q) and provides for: (1) the further subordination of these notes to the senior subordinated capital notes issued on March 30, 1976; and (2) their designation as junior subordinated capital notes. Interest is payable quarterly at a rate of 1% above the minimum commercial rate of the lenders. At December 31, 1975, the Bank had outstanding notes in the amount of $10,313,000 at 8.25%.

REDEMPTION OF PREFERRED STOCK

ALLIED FARM EQUIPMENT, INC.
Consolidated Balance Sheets
October 31, 1975 and 1974

	Pro Forma 1975 (Note 11)	1975	1974
Assets			
Current assets:			
Cash	$ 423	$ 632	$ 523
Receivables (Notes 3 and 5)	10,160	10,160	8,275
Less allowances for doubtful accounts	(307)	(307)	(306)
Inventories (Notes 1, 3 and 5)	17,604	17,604	13,583
Property held for resale (Note 8)	—	—	600
Other	267	267	304
Total current assets	28,147	28,356	22,979
Property, plant and equipment, at cost (Note 1):			
Land	230	230	230
Buildings	1,484	1,484	1,073
Machinery and equipment	2,624	2,624	2,227
	4,338	4,338	3,530
Less accumulated depreciation	2,272	2,272	2,024
	2,066	2,066	1,506
Other assets	118	118	183
	$30,331	$30,540	$24,668
Liabilities and Shareholders' Equity			
Current liabilities:			
Notes payable, banks (Notes 3 and 5)	$ 4,579	$ 4,579	$ 2,681
Bankers' acceptances payable (Notes 3 and 5)	5,390	5,390	5,100
Current portion of long-term debt (Note 5)	931	837	781
Accounts payable	4,652	4,652	4,071
Accrued liabilities	1,832	1,832	1,076
United States and Canadian income taxes	1,623	1,623	367
Total current liabilities	19,007	18,913	14,076
Long-term debt (Note 5)	3,775	3,328	3,675
Deferred income taxes (Note 1)	6	6	51
Commitments and contingent liabilities (Note 8)			
Shareholders' equity (Notes 5 and 7):			
Capital stock:			
5½% cumulative convertible preferred stock:			
Series A, $100 par value; authorized, issued and outstanding, 10,000 shares	750	1,000	1,000
Series B, $100 par value; authorized, issued and outstanding, 5,000 shares	—	500	500
Class A common stock, $1 par value; 5,000,000 shares authorized, 993,069 shares in 1975 and 992,569 shares in 1974 issued and outstanding	993	993	993
Capital in excess of par value of common shares	570	570	570
Retained earnings	5,230	5,230	3,803
Total shareholders' equity	7,543	8,293	6,866
	$30,331	$30,540	$24,668

5. Long-Term Debt

Long-term debt consists of:

	Portion Due Within One Year	Portion Due Beyond One Year
6% Convertible Subordinated Debentures due March 1, 1980	$ 80,000	$ 500,000
Term loans	188,000	734,000
Purchase contracts	561,000	580,000
Mortgages:		
6¾% due May 31, 1983	4,000	29,000
10¾% due December 31, 1994	4,000	485,000
Bank term loan due November 1, 1976 (see Note 4)		1,000,000
	$837,000	$3,328,000

6% Convertible Subordinated Debentures

The Debentures are convertible at any time into Class A common stock of the Company at $6.86 per share. They are redeemable, in total or in part, at the option of the Company, at par. The Indenture requires retirement of the Debentures at par plus accrued interest through a Sinking Fund in the principal amount of $100,000 in each of the years 1976 through 1979 and $200,000 at maturity. Sinking Fund payments may, at the option of the Company, be made in principal value of Debentures rather than cash. At October 31, 1975, the Company held Debentures in the principal amount of $20,000 to apply against the future Sinking Fund requirement.

The Debentures are subordinated to senior indebtedness (as defined in the Indenture) of $13,550,000 at October 31, 1975.

Term Loans

The term loans bear interest at 6¾% and 6⅞% and require annual principal payments of $190,000 (Canadian) through 1980. The loans may be prepaid in whole or in part, in any multiple of $50,000 with a prepayment penalty which ranges from 4¼% in 1975 to 2% in 1979.

Purchase Contracts

The purchase contracts evidenced by two notes payable arose in connection with the acquisition of businesses in 1968. One of the notes bears interest at 7% and is payable in annual installments of $21,000 through 1978.

The other note bears interest at 6¾% and requires annual payments of $540,000 in 1975 and thereafter through 1977. In the event the principal payment on this note in any year is less than 25% of the scheduled payment or if the aggregate of principal payments in any two consecutive years is less than 70% of scheduled payments for such years, the entire principal balance becomes due. If the principal payment in any year is less than 50%, or the aggregate of principal payments in any two consecutive years is less than 75% of the aggregate scheduled payments for such years, the holder may require certain shareholders (presently holding a majority of the shares) of the Company to elect such designees of the holder as may be necessary to elect a majority of the Board of Directors of the Company. Under restrictive provisions of the term loans above, principal payments to this holder are limited to 50% of the consolidated net earnings of the Company after October 31, 1970.

The Company also has outstanding warrants to purchase 110,277 shares of the Class A common stock of the Company in connection with the acquisition of one of the businesses. The Warrants may be exercised at a price of $3.00 per share, in whole or in part, until one year after the entire principal amount of the notes has been paid, but not later than August 31, 1983. The Warrants may be exercised by payment of cash or by cancellation at par of principal amounts due under the notes (allocated in proportion to principal amounts of scheduled payments).

Under the most restrictive terms of the debt agreements, the Company and its subsidiaries are required among other things to:

(i) maintain consolidated net working capital of at least $6,000,000 and a current ratio of at least 1.30 to 1.

(ii) maintain consolidated tangible net worth, as defined, of at least $2,150,000.

(iii) maintain accounts receivable and inventory of at least 175% of all bank, finance company and certain term debt collateralized by such accounts receivable and inventory.

(iv) restrict borrowings from banks on accounts receivable and inventories pledged to amounts which shall not exceed 110% of accounts receivable.

(v) limit the payment of dividends on common stock (other than stock dividends) and any other distribution on its common shares to 50% of the consolidated net earnings of the Company after October 31, 1970. Retailed [sic] earnings of $4,725,000 are restricted under this provision.

(vi) limit indebtedness to the parent company from its Canadian subsidiaries to an amount not to exceed $3,000,000 after February 15, 1971 and limit its direct investment in such subsidiaries to the amount held as of June 30, 1970.

At October 31, 1975 all of the above requirements were complied with.

Substantially all of the assets of the Company and its subsidiaries are pledged as collateral for debt.

The approximate aggregate amount of maturities and sinking fund requirements of long-term debt for each of the next five years is as follows: 1976, $837,000; 1977, $1,852,000; 1978, $314,000; 1979, $294,000; 1980, $395,000.

11. Events Subsequent to the Balance Sheet Date:

On January 23, 1976, the Company repurchased 5,000 shares of Series "B" and 2,500 shares of Series "A" 5½% Cumulative Preferred stock for $750,000. In connection with this transaction a payment of $541,000, which was made on September 1, 1975 on an existing 6¾% Purchase Contract (See Note 5) was extended and deferred. This payment was treated as a reduction of debt at October 31, 1975 pending completion of the Stock Repurchase Agreement. The amounts due under the extension and deferral are $70,000 payable on September 1, 1976 and 1977 and $401,000 payable on September 1, 1978.

In addition certain consents were obtained from the term loan lender for the above repurchase. A condition of the consent was to accelerate partial payment of the existing term loan by an additional $24,000 annually February 1, 1976 through February 1, 1979.

The Company also agreed to offer to redeem, at par, 2,500 shares of Series "A" Preferred Stock on November 1, 1976 and on each November 1, thereafter through November 1, 1978.

The pro forma balance sheet reflects the above transaction as if it had occurred October 31, 1975. Pro forma earnings per common share assuming full dilution would have been $.98 per share for the fiscal year.

Auditors' Opinion

To the Board of Directors and Shareholders
Allied Farm Equipment, Inc.,
Chicago, Illinois

We have examined the consolidated balance sheet of Allied Farm Equipment, Inc. and Subsidiaries as of October 31, 1975 and the related consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Company and Subsidiaries for the year ended October 31, 1974. We did not examine the financial statements of Allied Farm Equipment, Inc., a Delaware corporation, a consolidated subsidiary, which statements reflect total assets and sales constituting 13% and 16%, respectively in 1975 and 14% and 19%, respectively in 1974 of the related consolidated totals. These statements were examined by other certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiary is based solely upon the report of the other accountants.

In our opinion, based upon our examination and the report of the other accountants, the aforementioned financial statements present fairly the consolidated financial position of Allied Farm Equipment, Inc. and Subsidiaries at October 31, 1975 and 1974 and the consolidated results of their operations and of changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Also, we have reviewed the pro forma balance sheet as of October 31, 1975 and in our opinion, it presents fairly the consolidated financial position of Allied Farm Equipment, Inc. and Subsidiaries as it would have appeared at October 31, 1975 had the repurchase of preferred stock as described in Note 11 been consummated at that date.

RETIREMENT OF DEBT

GEORGIA-PACIFIC CORPORATION
Notes to Financial Statements

9. Convertible Subordinated Debentures:

The 5¾% (due 1994), 5¼% (due 1996) and 6¼% (due 2000) debentures were convertible into common stock at $40.43 per share, $49.14 per share and $45.59 per share, respectively, at December 31, 1975. The conversion prices are subject to adjustment under certain conditions including stock dividends on common stock.

On January 27, 1976, the Corporation called the 5¾% debentures for redemption. As a result of the call, it is anticipated that substantially all of the 5¾% debentures will be converted into common stock on or before February 26, 1976. Pro forma primary earnings per share, assuming conversion of the debentures as of January 1, 1974, were $2.41 and $2.68 for the years ended December 31, 1975 and 1974, respectively.

SALES OF OPERATIONS

COLUMBIA CORPORATION

Capitalization of Columbia and Pro Forma Capitalization

The capitalization of the Company as of December 31, 1975, and as adjusted to give effect to the sale of Republic Electric & Development Co. and the proposed sale of Great Western Malting Co., is shown below. This statement should be read in conjunction with other financial statements included elsewhere herein.

	Outstanding	Pro Forma Adjustments Add (Deduct)	As Adjusted
Short-term debt:			
$23,000,000 credit line, 1% over prime rate	$18,582,000	$(10,331,000)	$ 8,251,000
(See Note D of the Notes to the Consolidated Financial Statements of Columbia Corporation and Subsidiaries.)			
Long-term debt (including current maturities)			
8½%, $67,396 due monthly through December, 1980	3,235,000	—	3,235,000
6 and 7%, $333,333 due annually through June, 1984	3,000,000	(3,000,000)	—
One and one-half times prime rate (minimum of 3½% over prime rate and maximum of 4½% over prime rate) $63,683 due quarterly through December, 1981	1,528,000	—	1,528,000
1½% over EuroDollar funds rate, $50,000 due quarterly through December, 1982	1,000,000	—	1,000,000
6½%, $297,935 due annually through January, 1979	1,192,000	(894,000)	298,000
Other:			
Mortgages, 7% through 10½%, due through July, 1988	3,197,000	(124,000)	3,073,000
Other, 6% through 8½% due through August, 1982	2,064,000	(106,000)	1,958,000
	15,216,000	(4,124,000)	11,092,000
Stockholders' investment:			
Common stock, par value $1.00 a share, authorized 5,000,000 shares, issued and outstanding 3,160,132 shares	3,160,000	441,000	3,601,000
Additional paid-in capital	6,496,000	1,878,000	8,374,000
Retained Earnings	17,254,000	8,889,000	26,143,000
	26,910,000	11,208,000	38,118,000
	$60,708,000	$ (3,247,000)	$57,461,000

Pro Forma Condensed Balance Sheet

December 31, 1975

The following pro forma condensed balance sheet reflects, as of December 31, 1975, (1) the sale of Republic Electric & Development Co., (2) the proposed sale of Great Western Malting Co., (3) the repayment of certain debt of Great Western Malting Co., and (4) the exercise of all outstanding stock options, conversion of certain debt into common stock and issuance of contingent shares (see Note E of the Notes to the Consolidated Financial Statements of Columbia Corporation and Subsidiaries). This pro forma condensed balance sheet and the explanation of pro forma transactions and notes should be read in conjunction with other financial statements included elsewhere herein.

		Pro Forma Adjustments Add (Deduct)			
	Actual	Great Western Malting Co. (a)	Republic Electric & Development Co. (a)	Other	Pro Forma
Assets					
Current Assets:					
Cash	$ 492,000	$20,186,000	$ 849,000	$1,073,000 (b)	$22,600,000
Receivables	11,046,000	(3,179,000)	(469,000)	—	7,398,000
Inventories	39,721,000	(18,214,000)	(903,000)	—	20,604,000
Other	2,669,000	(145,000)	(6,000)	—	2,518,000
Total Current Assets	$53,928,000	(1,352,000)	(529,000)	1,073,000	53,120,000
Property, Plant, and Equipment, Net	16,351,000	(6,113,000)	(132,000)	—	10,106,000
Other	3,579,000	(46,000)	—	—	3,533,000
	$73,858,000	$(7,511,000)	$(661,000)	$1,073,000	$66,759,000
Liabilities and Stockholders' Investment					
Current Liabilities:					
Notes payable to banks	$18,582,000	$(9,918,000)	$(413,000)	$ —	$ 8,251,000
Accounts payable	11,175,000	(3,311,000)	(248,000)	—	7,616,000
Taxes on income	96,000	20,000	—	—	116,000
Current maturities of long-term debt	2,049,000	(370,000)	—	—	1,679,000
Total Current Liabilities	31,902,000	(13,579,000)	(661,000)	—	17,662,000
Deferred Taxes on Income and Other	1,879,000	(61,000)	—	(252,000) (b)	1,566,000
Long-Term Debt	13,167,000	(2,760,000)	—	(994,000) (b)	9,413,000
Stockholders' Investment	26,910,000	8,889,000	—	2,319,000 (b)	38,118,000
	$73,858,000	$(7,511,000)	$(661,000)	$1,073,000	$66,759,000
Net Book Value per Share	$ 8.52				$ 10.59 (c)

Notes to Pro Forma Condensed Balance Sheet

(a) To eliminate the assets and liabilities of Republic Electric & Development Co. and Great Western Malting Co. to be transferred to the purchasers and to give effect to the proposed sales as of December 31, 1975. The estimated sale proceeds are set forth below:

Proceeds from sale of Great Western Malting Co.	$20,186,000
Proceeds from sale of Republic Electric & Development Co.	1,354,000*
Less estimated net cash advances subsequent to December 31, 1975	(85,000)
	$21,455,000

*$413,000 assumed to be used to reduce notes payable to banks.

The pro forma gains applicable to the above proposed sales after estimated adjustments and expenses are:

Great Western Malting Co.:	
Proceeds from sale	$20,186,000
Investment	11,297,000
	8,889,000
Republic Electric & Development Co.:	
Proceeds from sale	1,269,000
Investment	1,269,000
	—
Gain from sales	$ 8,889,000

No provision for taxes has been reflected on the gains applicable to the above sales based upon the advice of Souther, Spaulding, Kinsey, Williamson and Schwabe, counsel for Columbia Corporation, that favorable rulings have been received from the Internal Revenue Service which, in the opinion of such counsel, provide that pursuant to section 337 of the Internal Revenue Code of 1954, as amended, no gain or loss (with certain limited exceptions) will be recognized by Columbia Corporation in connection with sales or exchanges of property subsequent to adoption of the Plan of Complete Liquidation by the stockholders if, within a twelve-month period beginning on such date of adoption, Columbia Corporation completes its liquidation.

(b) To reflect the exercise of all outstanding stock options, issuance of common stock pursuant to convertible debt agreements and issuance of contingent shares pursuant to a prior year's acquisition agreement as follows:

	Shares	Amount
Number of shares of common stock outstanding at December 31, 1975	3,160,132	$
Exercise of stock options	250,966	1,073,000
Conversion of convertible debt	139,974	994,000
Issuance of contingent shares	49,933	252,000
	440,873	$2,319,000
Number of shares of common stock outstanding at December 31, 1975 (Pro Forma)	3,601,005	

(c) The pro forma book value per share of Columbia Corporation at December 31, 1975 was $10.59. The book value per share reflects pro forma adjustments as follows:

Book value per share	$ 8.52
Pro forma adjustments:	
Proceeds from exercise of stock options, conversion of convertible debt to common stock and issuance of contingent shares	.64
Gain on sale of Great Western Malting Co.	2.47
Adjustment for share outstanding from 3,160,132 to 3,601,005 due to exercise of stock options, conversion of convertible debt to common stock and issuance of contingent shares	(1.04)
Pro forma book value per share	$10.59

Pro Forma Condensed Statement of Earnings

Year Ended December 31, 1975

The following pro forma statement of earnings for the year ended December 31, 1975 has been prepared to reflect the sale of Republic Electric & Development Co. and the proposed sale of Great Western Malting Co. The statement is based on the assumption that the sales were consummated at the beginning of 1975. This pro forma statement of earnings should be read in conjunction with other financial statements included elsewhere herein, particularly the Pro Forma Condensed Balance Sheet.

	Actual	Pro Forma Adjustments Add (Deduct): Great Western Malting Co.(a)	Pro Forma Adjustments Add (Deduct): Republic Electric & Development Co. (a)	Pro Forma	
Revenues:					
Net sales	$132,642,000	$(58,583,000)	$ —	$74,059,000	
Other revenue	860,000	—	—	860,000	
	133,502,000	(58,583,000)		74,919,000	
Cost and Expenses:					
Cost of operations	108,676,000	(47,196,000)	—	61,480,000	
Selling, general and administrative	13,849,000	(2,939,000)	—	10,910,000	
Depreciation and amortization	2,302,000	(525,000)	—	1,777,000	
Interest	2,746,000	(1,137,000)	—	1,609,000	
	127,573,000	(51,797,000)	—	75,776,000	
Earnings (Loss) Before Taxes on Income, Discontinued Operations and Extraordinary Items	5,929,000	(6,786,000)	—	(857,000)	
Taxes on Income	1,534,000	(3,312,000)	—	(1,778,000)	
	4,395,000	(3,474,000)	—	921,000	
Loss from Discontinued Operations, Net of Tax Benefit	480,000	—	118,000	598,000	
Net Earnings	$ 3,915,000	$ (3,474,000)	$(118,000)	$ 323,000	
Net Earnings per Share:					
Primary	$ 1.21			$ .09	(b)
Assuming Full Dilution	$ 1.17			$ .09	(b)

Notes to Pro Forma Condensed Statement of Earnings

(a) To eliminate the pro forma earnings of Republic Electric & Development Co. and Great Western Malting Co. to reflect sale of the business of the companies. Corporate expenses allocated by Columbia Corporation to these two subsidiaries have been included in the pro forma adjustments only to the extent that they are specifically identifiable with operations of those subsidiaries. This treatment had the effect of reducing pro forma net earnings by $284,000.

(b) Pro forma earnings per share are based on the exercise of all outstanding stock options, conversion of convertible debt into common stock and the issuance of contingent shares. This adjustment increased pro forma average shares outstanding by 372,670 to 3,597,617.

Auditors' Opinion

Board of Directors and Stockholders
Columbia Corporation
Portland, Oregon

We have examined the consolidated balance sheet of Columbia Corporation and Subsidiaries and the balance sheet of Columbia Corporation as of December 31, 1975 and 1974, and the related statements of earnings, stockholders' investment and changes in financial position for the three years ended December 31, 1975, 1974 and 1973. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note M to the consolidated financial statements, the Board of Directors has approved, and the stockholders of the Company will be asked to approve the sale of the business and operating assets of Great Western Malting Co., and the adoption of a plan for the liquidation of Columbia Corporation. The aforementioned financial statements have been prepared on the going concern basis and do not purport to show assets, liabilities or stockholders' investment at liquidation value.

In our opinion, the aforementioned financial statements present fairly the financial position of Columbia Corporation and Subsidiaries and Columbia Corporation at December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the three years ended December 31, 1975, 1974 and 1973, in conformity with generally accepted accounting principles applied on a consistent basis.

APPENDIX A

Excerpts from OPINION NO. 15 OF THE ACCOUNTING PRINCIPLES BOARD

EARNINGS PER SHARE

Additional Disclosures

• • • •

Supplementary Earnings per Share Data

22. Primary earnings per share should be related to the capital structures existing during each of the various periods presented.[6] Although conversions ordinarily do not alter substantially the amount of capital employed in the business, they can significantly affect the trend in earnings per share data. Therefore, if conversions during the current period would have affected (either dilutively or incrementally) primary earnings per share if they had taken place at the beginning of the period, supplementary information should be furnished (preferably in a note) for the latest period showing what primary earnings per share would have been if such conversions had taken place at the beginning of that period (or date of issuance of the security, if within the period). Similar supplementary per share earnings should be furnished if conversions occur after the close of the period but before completion of the financial report. It may also be desirable to furnish supplementary per share data for each period presented, giving the cumulative retroactive effect of all such conversions or changes. However, primary earnings per share data should not be adjusted retroactively for conversions.

23. Occasionally a sale of common stock or common stock equivalents for cash occurs during the latest period presented or shortly after its close but before completion of the financial report. When a portion or all of the proceeds of such a sale has been used to retire preferred stock or debt, or is to be used for that purpose, supplementary earnings per share data should be furnished (preferably in a note) to show what the earnings would have been for the latest fiscal year and any subsequent interim period presented if the retirement had taken place at the beginning of the respective period (or date of issuance of the retired security, if later). The number of shares of common stock whose proceeds are to be used to retire the preferred stock or debt should be included in this computation. The bases of these supplementary computations should be disclosed.[7]

Fully Diluted Earnings Per Share

No Anti-Dilution

40. The purpose of the fully diluted earnings per share presentation is to show the maximum potential dilution of current earnings per share on a prospective basis. Consequently, computations of fully diluted earnings per share for each period should exclude those securities whose conversion, exercise or other contingent issuance would have the effect of increasing the earnings per share amount or decreasing the loss per share amount[14] for such period.

---

[6]See paragraphs 48-49 and 62-64 for exceptions to this general rule.
[7]There may be other forms of recapitalization which should be reflected in a similar manner.
[14]See footnote 8.

When Required

41. Fully diluted earnings per share data should be presented on the face of the statement of income for each period presented if shares of common stock (a) were issued during the period on conversions, exercise, etc., or (b) were contingently issuable at the close of any period presented and if primary earnings per share for such period would have been affected (either dilutively or incrementally) had such actual issuances taken place at the beginning of the period or would have been reduced had such contingent issuances taken place at the beginning of the period. The above contingencies may result from the existence of (a) senior stock or debt which is convertible into common shares but is not a common stock equivalent, (b) options or warrants, or (c) agreements for the issuance of common shares upon the satisfaction of certain conditions (for example, the attainment of specified higher levels of earnings following a business combination). The computation should be based on the assumption that all such issued and issuable shares were outstanding from the beginning of the period (or from the time the contingency arose, if after the beginning of the period). Previously reported fully diluted earnings per share amounts should not be retroactively adjusted for subsequent conversions or subsequent changes in the market prices of the common stock.

42. The methods described in paragraphs 36-38 should be used to compute fully diluted earnings per share if dilution results from outstanding options and warrants; however, in order to reflect maximum potential dilution, the market price at the close of the period reported upon should be used to determine the number of shares which would be assumed to be repurchased (under the treasury stock method) if such market price is higher than the average price used in computing primary earnings per share (see paragraph 30). Common shares issued on exercise of options or warrants during each period should be included in fully diluted earnings per share from the beginning of the period or date of issuance of the options or warrants if later; the computation for the portion of the period prior to the date of exercise should be based on market prices of the common stock when exercised.

APPENDIX B

Excerpts from OPINION NO. 16 OF THE ACCOUNTING PRINCIPLES BOARD

BUSINESS COMBINATIONS

Disclosure in Financial Statements

95. Notes to the financial statements of an acquiring corporation should disclose the following for the period in which a business combination occurs and is accounted for by the purchase method.

a. Name and a brief description of the acquired company.
b. Method of accounting for the combination—that is, by the purchase method.
c. Period for which results of operations of the acquired company are included in the income statement of the acquiring corporation.
d. Cost of the acquired company and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the issued and issuable shares.
e. Description of the plan for amortization of acquired goodwill, the amortization method, and period (APB Opinion No. 17, paragraphs 27 to 31).
f. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment.

Information relating to several relatively minor acquisitions may be combined for disclosure.

96. Notes to the financial statements of the acquiring corporation for the period in which a business combination occurs and is accounted for by the purchase method should include as supplemental information the following results of operations on a pro forma basis:

a. Results of operations for the current period as though the companies had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period.
b. Results of operations for the immediately preceding period as though the companies had combined at the beginning of that period if comparative financial statements are presented.

The supplemental pro forma information should as a minimum show revenue, income before extraordinary items, net income, and earnings per share. To present pro forma information, income taxes, interest expense, preferred stock dividends, depreciation and amortization of assets, including goodwill, should be adjusted to their accounting bases recognized in recording the combination. Pro forma presentation of results of operations of periods prior to the combination transaction should be limited to the immediately preceding period.

APPENDIX C

Excerpts from OPINION NO. 20 OF THE ACCOUNTING PRINCIPLES BOARD

ACCOUNTING CHANGES

Reporting A Change in Accounting Principle

• • • •

19. For all changes in accounting principle except those described in paragraphs 27 to 30 and 34 to 35, the Board therefore concludes that:

a. Financial statements for prior periods included for comparative purposes should be presented as previously reported.
b. The cumulative effect of changing to a new accounting principle on the amount of retained earnings at the beginning of the period in which the change is made should be included in net income of the period of the change (paragraph 20).
c. The effect of adopting the new accounting principle on income before extraordinary items and on net income (and on the related per share amounts) of the period of the change should be disclosed.
d. Income before extraordinary items and net income computed on a pro forma basis[6] should be shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected (paragraph 21).

Thus, income before extraordinary items and net income (exclusive of the cumulative adjustment) for the period of the change should be reported on the basis of the newly adopted accounting principle. The conclusions in this paragraph are modified for various special situations which are described in paragraphs 23 to 30.

20. *Cumulative effect of a change in accounting principle.* The amount shown in the income statement for the cumulative effect of changing to a new accounting principle is the difference between (a) the amount of retained earnings at the beginning of the period of a change and (b) the amount of retained earnings that would have been reported at that date if the new accounting principle had been applied retroactively for all prior periods which would have been affected and by recognizing only the direct effects of the change and related income tax effect.[7] The amount of the cumulative effect should be shown in the income statement between the captions "extraordinary items" and "net income." The cumulative effect is not an extraordinary item but should be reported in a manner similar to an extraordinary item. The per share information shown on the face of the income statement should include the per share amount of the cumulative effect of the accounting change.

21. *Pro forma effects of retroactive application.* Pro forma effects of retroactive application (paragraph 19-d including footnote 6) should be shown on the face of the income statement for income before extraordinary items and net income. The earnings per share amounts (primary and fully diluted, as appropriate under APB Opinion No. 15, *Earnings per Share*) for income before

[6]The pro forma amounts include both (a) the direct effects of a change and (b) nondiscretionary adjustments in items based on income before taxes or net income, such as profit sharing expense and certain royalties, that would have been recognized if the newly adopted accounting principle had been followed in prior periods: related income tax effects should be recognized for both (a) and (b). Direct effects are limited to those adjustments that would have been recorded to restate the financial statements of prior periods to apply retroactively the change. The nondiscretionary adjustments described in (b) should not therefore be recognized in computing the adjustment for the cumulative effect of the change described in paragraph 20 unless nondiscretionary adjustments of the prior periods are actually recorded.

[7]See footnote 6.

extraordinary items and net income computed on a pro forma basis should be shown on the face of the income statement. If space does not permit, such per share amounts may be disclosed prominently in a separate schedule or in tabular form in the notes to the financial statements with appropriate cross reference; when this is done the actual per share amounts should be repeated for comparative purposes. Pro forma amounts should be shown in both current and future reports for all periods presented which are prior to the change and which would have been affected. Appendix A illustrates the manner of reporting a change in accounting principle. If an income statement is presented for the current period only, the actual and the pro forma amounts (and related per share data) for the immediately preceding period should be disclosed.

22. The principal steps in computing and reporting the cumulative effect and the pro forma amounts of a change in accounting principle may be illustrated by a change in depreciation method for previously recorded assets as follows:

a. The class or classes of depreciable assets to which the change applies should be identified. (A "class of assets" relates to general physical characteristics.)
b. The amount of accumulated depreciation on recorded assets at the beginning of the period of the change should be recomputed on the basis of applying retroactively the new depreciation method. Accumulated depreciation should be adjusted for the difference between the recomputed amount and the recorded amount. Deferred taxes should be adjusted for the related income tax effects.
c. The cumulative effect on the amount of retained earnings at the beginning of the period of the change resulting from the adjustments referred to in (b) above should be shown in the income statement of the period of the change.
d. The pro forma amounts should give effect to the pro forma provisions for depreciation of each prior period presented and to the pro forma adjustments of nondiscretionary items,[8] computed on the assumption of retroactive application of the newly adopted method to all prior periods and adjusted for the related income tax effects.

25. *Pro forma amounts not determinable.* In rare situations the pro forma amounts described in paragraph 21 cannot be computed or reasonably estimated for individual prior periods, although the cumulative effect on retained earnings at the beginning of the period of change can be determined. The cumulative effect should then be reported in the income statement of the period of change in the manner described in paragraph 20. The reason for not showing the pro forma amounts by periods should be explained because disclosing those amounts is otherwise required and is expected by users of financial statements.

[8]See footnote 6.

APPENDIX D

Excerpts from STATEMENT ON AUDITING STANDARDS NO. 1

560 SUBSEQUENT EVENTS

.01 An independent auditor's report ordinarily is issued in connection with historical financial statements that purport to present financial position at a stated date and results of operations and changes in financial position for a period ended on that date. However, events or transactions sometimes occur subsequent to the balance-sheet date, but prior to the issuance of the financial statements and auditor's report, that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements. These occurrences hereinafter are referred to as "subsequent events."

.02 Two types of subsequent events require consideration by management and evaluation by the independent auditor.

.03 The first type consists of those events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used by management in its evaluation of the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.

.04 Identifying events that require adjustment of the financial statements under the criteria stated above calls for the exercise of judgment and knowledge of the facts and circumstances. For example, a loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy subsequent to the balance-sheet date would be indicative of conditions existing at the balance-sheet date, thereby calling for adjustment of the financial statements before their issuance. On the other hand, a similar loss resulting from a customer's major casualty such as a fire or flood subsequent to the balance-sheet date would not be indicative of conditions existing at the balance-sheet date and adjustment of the financial statements would not be appropriate. The settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the events, such as personal injury or patent infringement, that gave rise to the litigation had taken place prior to the balance-sheet date.

.05 The second type consists of those events that provide evidence with respect to conditions that did not exist at the date of the balance sheet being reported on but arose subsequent to that date. These events should not result in adjustment of the financial statements.[1] Some of these events, however, may be of such a nature that disclosure of them is required to keep the financial statements from being misleading. Occasionally such an event may be so significant that disclosure can best be made by supplementing the historical financial statements with pro forma financial data giving effect to the event as if it had occurred on the date of the balance sheet. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical statements.

[1]This paragraph is not intended to preclude giving effect in the balance sheet, with appropriate disclosure, to stock dividends or stock splits or reverse splits consummated after the balance-sheet date but before issuance of the financial statements.

.06 Examples of events of the second type that require disclosure in the financial statements (but should not result in adjustment) are:

a. Sale of a bond or capital stock issue.
b. Purchase of a business.
c. Settlement of litigation when the event giving rise to the claim took place subsequent to the balance-sheet date.
d. Loss of plant or inventories as a result of fire or flood.
e. Losses on receivables resulting from conditions (such as a customer's major casualty) arising subsequent to the balance-sheet date.

.07 Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities ordinarily will require adjustment of the financial statements (see paragraph .03) because such events typically represent the culmination of conditions that existed over a relatively long period of time. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements (see paragraph .05) because such changes typically reflect a concurrent evaluation of new conditions.

.08 When financial statements are reissued, for example, in reports filed with the Securities and Exchange Commission or other regulatory agencies, events that require disclosure in the reissued financial statements to keep them from being misleading may have occurred subsequent to the original issuance of the financial statements. Events occurring between the time of original issuance and reissuance of financial statements should not result in adjustment of the financial statements[1] unless the adjustment meets the criteria for the correction of an error or the criteria for prior period adjustments set forth in Opinions of the Accounting Principles Board. Similarly, financial statements reissued in comparative form with financial statements of subsequent periods should not be adjusted for events occurring subsequent to the original issuance unless the adjustment meets the criteria stated above.

.09 Occasionally, a subsequent event of the second type has such a material impact on the entity that the auditor may wish to include in his report an explanatory paragraph directing the reader's attention to the event and its effects. (See section 545.03.)

---

[1]However, see paragraph .05 as to the desirability of presenting pro forma financial statements to supplement the historical financial statements in certain circumstances.

APPENDIX E

Excerpt from STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 5

ACCOUNTING FOR CONTINGENCIES

Standards of Financial Accounting and Reporting

• • • •

Disclosure of Loss Contingencies

• • • •

11. After the date of an enterprise's financial statements but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. The information may relate to a loss contingency that existed at the date of the financial statements, e.g., an asset that was not insured at the date of the financial statements. On the other hand, the information may relate to a loss contingency that did not exist at the date of the financial statements, e.g., threat of expropriation of assets after the date of the financial statements or the filing for bankruptcy by an enterprise whose debt was guaranteed after the date of the financial statements. In none of the cases cited in this paragraph was an asset impaired or a liability incurred at the date of the financial statements, and the condition for accrual in paragraph 8(a) is, therefore, not met. Disclosure of those kinds of losses or loss contingencies may be necessary, however, to keep the financial statements from being misleading. If disclosure is deemed necessary, the financial statements shall indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss or possible loss or state that such an estimate cannot be made. Occasionally, in the case of a loss arising after the date of the financial statements where the amount of asset impairment or liability incurrence can be reasonably estimated, disclosure may best be made by supplementing the historical financial statements with pro forma financial data giving effect to the loss as if it had occurred at the date of the financial statements. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements.

INDEX